NATIONS TRUST BANK PLC – ANNUAL REPORT 2021

Velocity of value continues...

Nations TrustBank

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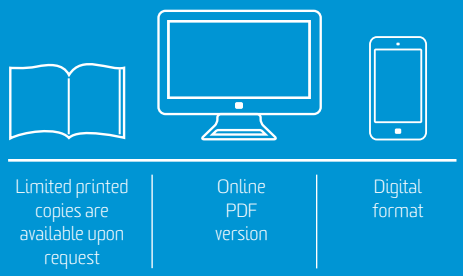
How to read this report

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 mediums as listed below.



The PDF version of the Annual Report 2021 can be read at: https://www.nationstrust.com/about-us/investor-relations/annual-reports

As a bank built on principles of innovation and a farsighted vision, Nations Trust Bank has always been a bank in motion, transforming and evolving to remain a step ahead of the environment in which we operate. That's why, despite the uncertain times in which we live today, your Bank has steadily advanced against all odds; based on the power of prudent planning, futuristic thinking and stable structures designed to conquer the fiercest storm.

Our impactful vision has driven your Bank to safeguard and preserve its resources through sustainable, stakeholder-centric initiatives that drive ripples of positive change across people and planet. This report outlines what we have achieved thus far, and what we hope to accomplish - all engineered with generating an unwavering surge of limitless value that will shape the future of generations yet to come.

The velocity of value continues...

Nations TrustBank

Our commitment continues...

Driving persistent efforts to achieve a positive impact on our environment.

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 a 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 379 billion as at end December 2021, 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 - Speed
M - More with less
A - Adaptable
R - Responsible
T - Tech savvy

Values

- Agile
- Proactive
- Excellence
- Winning Together
- Trust

Overview

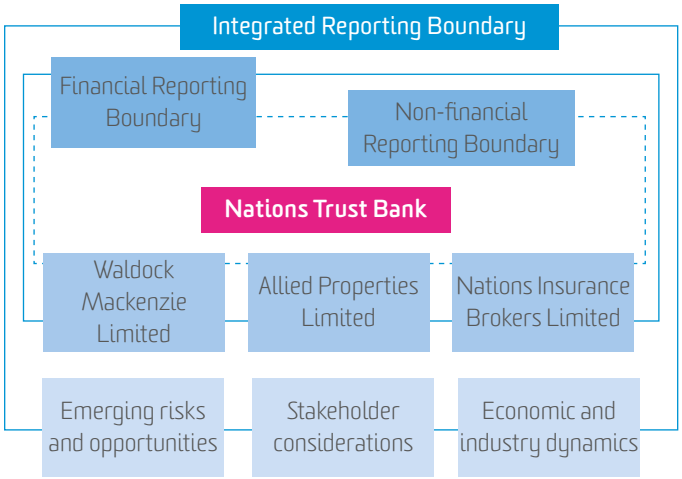
About this Report

Our Integrated Annual Report for 2021 has been carefully structured to provide readers with a concise and balanced assessment of how Nations Trust Bank PLC ("Nations Trust" or the "Bank") directed its strategy to create value for its stakeholders during the year.

Reporting Entity	Reporting Period	Standards And Principles	Assurance
The Report covers the operations of Nations Trust and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (collectively referred to as "Group").	This Report covers the period from 1st January 2021 to 31st December 2021. We adopt an annual reporting cycle, and this Report builds on our previous Report for the financial year ending 31st December 2020	• Sri Lanka Financial Reporting Standards • Integrated Reporting Framework of the International Integrated Reporting Council • This report has been prepared in accordance with the GRI Standards: Core option	Assurance on financial statements obtained from Messrs., Ernst and Young Assurance on sustainability reporting was obtained through Messrs. Ernst and Young.

Scope and Boundary

The scope and boundary of the integrated report is presented alongside. 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. The Group operates exclusively in Sri Lanka.



Changes to Reporting

There were no major changes to the Bank's size, shareholding structure or supply chain during the year under review. There were also no major restatements of non-financial information disclosed in our previous Annual Report.

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.

Navigation icons

Our Capitals

- Financial capital
- Manufactured capital
- Digital Capital
- Human capital
- Social & Relationship capital
- Intellectual capital
- Natural capital

Stakeholders

- Shareholders
- Employees
- Customers
- Business partners
- Government
- Communities

Strategic Focus Areas

- Business focus
- Cost and efficiency management
- Customer experience
- Automation and digitisation

Feedback

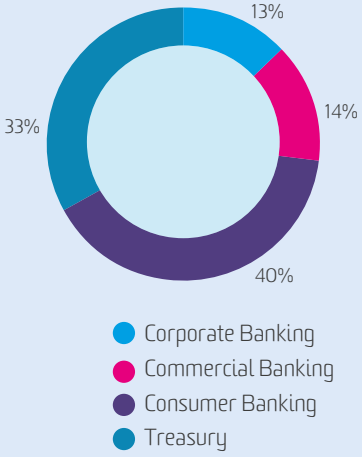
We understand that integrated reporting is a journey of continuous improvement, and we are committed to consistently enhancing the quality and readability of our Report. We welcome your suggestions and comments on this Report. Please direct your feedback to,

Evan Ranasinghe,
Vice President, Management Reporting and Planning
E-mail: evan.ranasinghe@nationstrust.com

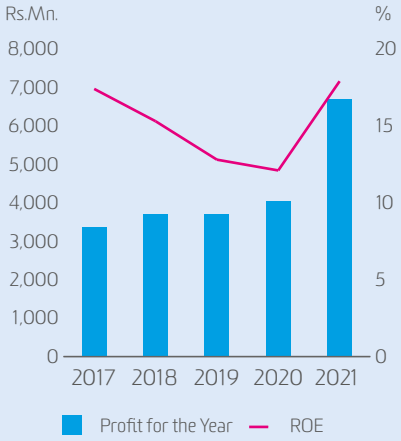
Nations Trust at a Glance

Nations Trust is a Sri Lankan Licensed Commercial Bank (LCB) serving the country's Corporate, Commercial and Consumer segments with a wide range of product/service suites through a customer centric, technology driven approach. The Bank's relentless focus on redefining the customer experience through innovative solutions delivered through best in class digital platforms and excellent customer services, has enabled Nations Trust to carve a niche for itself in the intensely competitive Sri Lankan banking sector. As a relatively young and dynamic Bank, Nations Trust has successfully built a lean and agile business model which in turn has enabled a high level of responsiveness and resilience to unprecedented shifts occurring in the banking industry.

Operating Income by Segment



Profitability/ROE

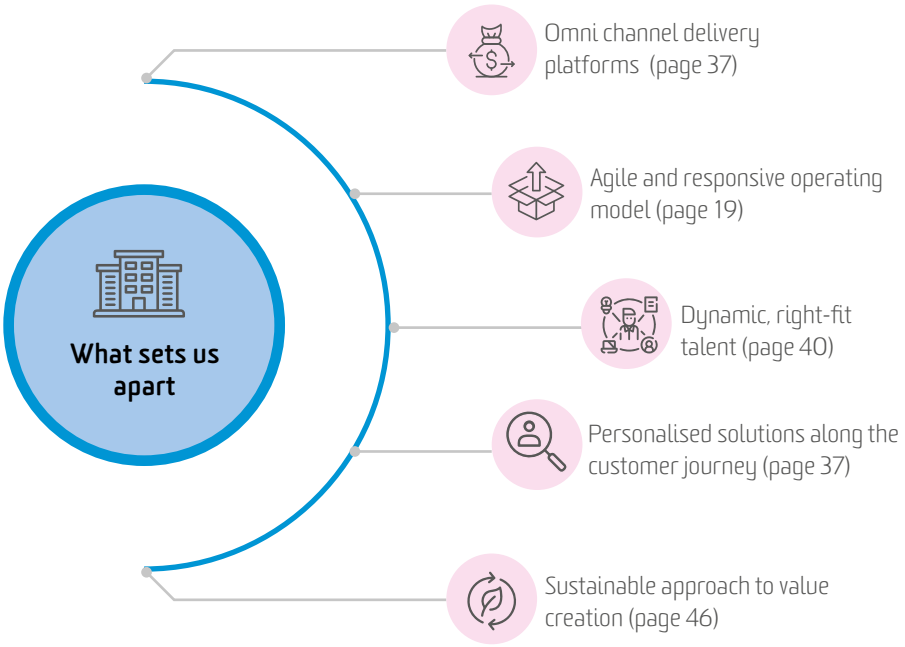


2,677
Employees

> 750k
Customers

138
Customer contact points

Highlights



Revenue
LKR 23 Bn

Total Assets
LKR 379 Bn

Profit After Tax
LKR 6.7 Bn

Total Capital Ratio
17.46 %

Year in Review

The Group delivered the highest profits in its operating history during the year under review, demonstrating its ability to adapt and thrive in extraordinarily challenging circumstances. The year's success was underpinned by the Group's foresight in identifying and proactively responding to emerging risks and opportunities through timely interventions.

- Emphasis on portfolio quality and profitability through selective lending
- Delivery of customer-centric solutions through a lifecycle proposition and relationship driven approach
- Digitisation of external and internal customer processes
- Implementation of a hybrid working model
- Integrating environmental and social consciousness

- Pandemic led disruptions to operations
- Macro-economic headwinds including the country's foreign currency stress situation, rising interest rates and escalating inflation
- Regulatory developments
- Customers' unprecedented shift towards digital channels and increasing sophistication
- Increased stakeholder emphasis on Environment, Social and Governance (ESG) considerations

- 12% asset growth, led by 18% lending expansion
- 11% growth in deposits
- 65% increase in profit after tax
- 12% growth in operating income supported by effective margin management and trading activities
- 39% cost to income ratio (2020: 45%)
- 19% decrease in NPLs
- 17.46% total capital ratio (2020: 17.98%)
- 65% EPS growth

- Effectively manage risks stemming from the macro economic landscape
- Drive further enhancements in customers' digital experience
- Continued focus on supporting the growth of Sri Lanka's export and local manufacturing sectors
- Increased emphasis on improving productivity and operational efficiencies

Performance Highlights

Figures In LKR Million	2021	2020	Change
Performance of the year (Group)			
Operating income	23,269	20,698	12%
Operating expense	9,122	9,296	-2%
Profit after tax	6,694	4,055	65%
Financial Position			
Customer deposits	267,988	240,574	11%
Loans and receivables	247,442	210,186	18%
Total assets	379,552	337,991	12%
Total equity to equity holders	40,159	35,125	14%
Profitability			
Net interest margin (Bank)	3.85%	4.07%	
Cost to income ratio	39%	45%	
Return on assets	1.8%	1.2%	
Return on equity	17.9%	12.1%	
Return on risk weighted assets	2.8%	1.8%	
Investor Information			
Market value per share-voting (LKR)	55.0	60.0	
Market value per share-non voting (LKR)	65.1	75.0	
Net asset value per share (LKR)	141.5	123.7	
Earnings per share-basic (LKR)	22.2	13.5	
Dividend per share (LKR)	3.5	2.0	
Dividend yield (Voting)	6.4%	3.3%	
Market capitalisation (LKR million)	16,009	17,612	
Risk Management (Bank)			
Non performing loans ratio	4.9%	7.2%	
Impairment provision/Loans	4.3%	3.9%	
Stage III Loans/Gross Loans	2.1%	5.2%	
Stage III Impairment/Stage III Loans	50.7%	28.0%	
(Stage III Loans – Impairment)/Capital	11.1%	50.3%	
Capital adequacy ratio			
Tier 1	14.77%	14.40%	
Total capital	17.46%	17.98%	
Leverage ratio	9.03%	9.03%	
Statutory liquid assets ratio (DBU)	32.82%	38.79%	
Liquidity coverage ratio (All currency)	304.28%	341.63%	
Net stable funding ratio	146.06%	151.62%	

Economic Value Creation

Salaries and Benefits to Employees

LKR 4.6 Bn

Dividends to Shareholders

LKR 0.99 Bn

Taxes to Government

LKR 3.7 Bn

Payments to Suppliers

LKR 4.4 Bn

Our Year in Numbers

87%
Digital Transactions

14%
Growth in omni-channel Users

LKR 334 Mn
Investment in Digital Capabilities

> 40
Main Processes Automated

Value to Our Team

2,677
Employees

85%
Employee Retention

295
Employees Facilitated for Remote Working

45%
Female Representation including 28% at Management Level

19,019
Training Hours

74%
Increase in Profit per Employee

Leveraging our Partnerships

>750k
Customers

1,292
Suppliers

29
Correspondent Relationships

15
Exchange houses

Commitment to the Environment

22 MT Paper Savings

17.1% Reduction in Carbon Footprint

20% Reduction in Energy Consumption

56% of the loans & advances are screened for social & environmental criteria

Chairman's Message

Dear Shareholder,

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 2021.

As the pandemic related disruptions continued to impact the operating landscape in 2021, the Sri Lankan Banking sector faced yet another year of volatility and uncertainty. However, it is encouraging that business activity has largely reverted to pre-pandemic levels as a result of the successful vaccination drive carried out by the Government during the year, where almost the entirety of the adult population is fully vaccinated,

Despite these challenging times, Nations Trust has leveraged on its strategic foresights and culture of agility and responsiveness to successfully navigate external headwinds, delivering record profitability, with continued stability and value creation to all its stakeholders.

Operating Context

Unprecedented policy support and the rapid development of effective COVID-19 vaccines supported the recovery of the global economy in 2021, which is estimated to have expanded by 5.9%. However, the emergence of highly transmissible new COVID-19 variants weakened the recovery momentum towards the latter part of 2021.

The Sri Lankan economy rebounded in early 2021, before moderating in the ensuing quarters following the multiple outbreaks of COVID-19 cases. Resultantly, GDP grew by 4.4% during the first 9 months of the year. The Government continued to support businesses affected by the pandemic, extending moratoriums for working capital facilities and the tourism sector, in particular. Following consistently low interest rates since the outbreak of the pandemic, the Central Bank of Sri Lanka took measures to tighten monetary policy from the 3rd quarter of 2021. As the drop in tourism earnings and remittances impacted the country's foreign exchange reserves, together with the position on the external financing position, the CBSL introduced several measures to limit foreign currency outflows from the banking system.. While decisive policy measures are deemed necessary during periods of volatility and uncertainty, policy interventions on market driven aspects such as interest rates, where caps have been imposed, have rendered it challenging for banks to price risk appropriately, which in turn impacts effective resource allocation. We hope that such policy measures will be reviewed at the appropriate time. Similarly, the prevailing foreign exchange crisis has many implications on the banking system and its customers. While the challenges and related solutions are admittedly complex, necessary remedial measures are required expeditiously to ensure that the banking industry and customers, alike, are able to seamlessly continue with business and contribute towards economic growth. We are acutely conscious of the Banking Sector's role in supporting the country's macro-economic stability and will continue to do our part in supporting the recovery of businesses and the economy.

Strategy and Performance

The Bank evolved and adapted its strategy in view of emerging dynamics, focusing efforts on de-risking the portfolio, preserving credit quality and relentlessly pursuing operational efficiencies. As these initiatives are detailed in the Chief Executive Officer's Review on page 10 of this Report, I will limit my discussion to the key highlights. The Bank made significant progress in its digital drive as it launched several innovative value added features and services aimed at

transforming the entire customer journey through a digital first approach. The digital transformation project currently underway will enable the bank to augment its offering to our customers. During the year, there were concerted efforts on proactively pre-empting challenges faced by our customers and arriving at solutions while ensuring recoveries and collections were sustained. While being conscious of the quality of the loan portfolio, loan growth witnessed a growth of 18% driven by selective lending to critical sectors of the economy. Profit after tax increased by 65% in view of trading gains, cost efficiencies and improvements in portfolio quality. I am particularly pleased with the manner in which the Bank continued to make inroads in driving efficiencies through automation and productivity improvements, which led to a 2% decline in operating expenses, translating to a significant decline in the cost to income ratio to 39%, compared with 45% in the previous year.

Despite the moderation in economic conditions, the Bank's credit quality improved, with impairment charges declining by 3% and the gross NPL ratio declining to 4.9% (2020: 7.2%), reflecting the ongoing engagement with customers in offering customised repayment plans and the Group's selective approach to lending. The financial position continued to be strengthened following strong profit retention, the issue of LKR 4.0 billion of redeemable debentures and a USD 40 million facility from FMO, which demonstrates the ability of the bank to attract investments during a challenging year. Resultantly, the Tier 1 Capital and Total Capital Adequacy ratios improved to 14.77% and 17.46% by end-December 2021.

Leadership and Governance

The Bank's robust corporate governance frameworks and practices were pivotal in navigating the complexities of the year. In 2021, the Board established an Information Technology Advisory Sub-Committee to provide oversight on the Bank's digital transformation strategy, thereby directing more focused attention to this critical area. The Board continued to proactively monitor emerging developments relating to the pandemic as well as economic and industry landscapes to assess potential implications on the Bank's performance, stability and risk profile. Other areas of Board focus included safeguarding the well-being of our employees and customers, strengthening risk management frameworks including cybersecurity and IT risks and exploring avenues of enhancing capital.

On behalf of the Board, I welcome Mr. Chandika Hettiarachchi who was appointed as a Non-Executive Director in January 2022. Mr. Hettiarachchi brings with him extensive experience in financial management, leasing and credit, skills which will be integral in supporting the Bank's strategy over the next few years.

Way Forward

While cognisant of the short to medium term stress stemming from the volatility and uncertainty in the country's external financing, foreign exchange market impacts on inflation due to global supply chain disruptions, the encouraging recovery momentum of the overall business activity and the gradual resumption of tourist arrivals to the country, particularly in the context of the positive impact it will have on foreign exchange earnings, will be contributors towards reviving the economy. These positive impacts, however, will have a lag effect and therefore we believe parallel measures to create immediate confidence in the outlook for the economy will be required. Whilst the outlook is expected to be volatile, I strongly believe the foundation laid by the Bank over the many years will continue to pave the way for new opportunities and for the bank to leverage on its strengths. Overall, the Bank will focus its efforts on building resilience and sustainability through prioritising credit quality, margin management, return focused lending and financial stability.

Director/CEO Succession

As announced to the Colombo Stock Exchange on 21st February 2022, Mr Priyantha Talwatte will step down from the post of Director/Chief Executive Officer of the Bank with effect from 3rd April 2022. This is in keeping with the Bank's already established succession plan for the post of Director/Chief Executive Officer which was approved by the Board at the time of the appointment of Mr. Talwatte.

Mr. Talwatte has played a key role in the Bank's transformation and success. On behalf of the Board, I extend my deepest appreciation for his invaluable contribution over the years and wish him well. Mr. Hemantha Gunatilleke, the current Deputy Chief Executive Officer, will take over as Director/Chief Executive Officer from the 4th of April 2022, subject to regulatory approvals from the Central Bank of Sri Lanka. I wish to congratulate Mr. Gunatilleke and wish him success in his new role.

Appreciation

The Bank's resilience and success of the year is a direct result of the agility, professionalism and commitment of the Nations Trust team, who continued to deliver superior customer experiences despite a multitude of challenges. I am particularly grateful to all our employees for embracing the many initiatives rolled out during the year while delivering on a strong performance. The teams ensured our customers were well served despite the many disruptions encountered due to multiple Covid-19 outbreaks in the country which impacted our own employees as well. I wish to congratulate and thank Mr. Priyantha Talwatte and the Corporate Management Team for their exceptional leadership in these challenging times and also thank my fellow Board members for their valuable counsel and guidance during the year. On behalf of the Board, I extend my appreciation to Mr. Suran Wijesinghe, who retired from the Board with effect from 1st November 2021, upon reaching his tenure of nine years as a Director.

Thank you.

Gihan Cooray
Chairman

23rd February 2022
Colombo

Chief Executive Officer's Review

Dear Stakeholders,

As I reflect on what has been a year of unprecedented tumult and uncertainty, I am happy to report that our strategic foresight and the solid foundations put in place over the last few years, enabled Nations Trust Bank to incisively navigate the complexities presented by the operating landscape. As a result, the Group has emerged as an increasingly agile and responsive organisation, demonstrating strong resilience to numerous external headwinds. In 2021, we were able to focus on the survival and commercial sustainability of our customers while supporting the physical and mental well-being of our employees and optimising efficiencies and our franchise. The Group also delivered record profitability and shareholder returns while remaining well capitalised and liquid.

Overview of financial performance

As new dynamics continued to reshape our operating landscape, the Group adopted a cautious and selective approach to lending, refocusing on segments of the economy that are anticipated to have upside potential. The Group's efforts to proactively identify and pursue such opportunities, particularly in export-oriented and local manufacturing sectors led to an 18% growth in loans and advances. The growth in Net Interest Income (NII) was, however contained at 3% reflecting the regulatory caps on interest rates on selected products and our conscious efforts to optimise risk-reward dynamics through increasing exposure to Wholesale Banking. Net fee and commission income recorded strong growth of 27% supported by the growth in trade and card-related income. The Group's proactive efforts to leverage its healthy foreign currency liquidity position to capitalise market opportunities led to significant trading gains which in turn resulted in Operating Income increasing by 12% during the year.

The Group's impairment charges declined by 3%, a commendable achievement given the broad-based economic stress and increased provisioning requirements stemming from the downgrade of the sovereign rating. This was driven by relentless focus on strengthening recovery and collection efforts and reflected the de-risking of our portfolio through selective lending. Ongoing efforts to enhance operating efficiencies through organisational realignment, automation and productivity improvements have led to consistent improvements in cost management, with the Group's operating expenses decreasing by 2% during the year.

Despite a 33% increase on Taxes and Levies on Financial Services, the Group's pre-tax profit increased by 39% to a record-high of LKR 8.42 billion. A reduction in the effective tax rate during the year, also led to a 65% increase in profit-for-the-year to LKR 6.69 billion. Resultantly, the Group successfully delivered on its shareholder commitments with Return on Equity improving to 17.9%, from 12.1% in 2020.

Our solid performance for 2021 enables us to make choices about our future from a position of financial stability and strength. Total equity increased by 14% during the year supported by strong profit retention resulting in the Tier 1 and Total capital ratio strengthening to 15.31% and 18.01% respectively. The Group also successfully raised LKR 4.0 billion through a rated, senior, redeemable debenture and obtained a USD 40 million facility from FMO- which further strengthened the funding position. We also maintained healthy rupee and dollar liquidity levels, which enabled the Group to withstand the stress stemming from the macro-economic conditions and pandemic-led disruptions.

Strategic Progress

We focused on our inherent capabilities and core strengths, leveraging the foundations that supported the successful delivery of our strategy since the outbreak of the pandemic. From a portfolio perspective, we maintained focus on low-risk segments of the Corporate and Middle market segments, effectively identifying opportunities to grow these portfolios safely. We also exited relatively risky segments, particularly in the Consumer portfolio. The success of this approach was demonstrated by the Group's ability to deliver resilience through the dip in the economic cycle.

Achieving customer centricity through shifting from a product mindset to a relationship-driven approach was a key priority during the year as we aspire to deepen customer relationships and increase wallet share. The Bank's best-in-class digital capabilities aptly positioned it to capitalise on the unprecedented shift to digital platforms, as we adopted a digital-first approach in transforming customer journeys across all segments. Key digital developments during the year included the launch of digital onboarding through vKYC and eKYC solutions, new cash management platform for corporate customers and proactively encouraging customers to shift to QR-based payment platforms. As a result of these efforts, the Bank's digitally enabled customers increased by 14% while digital transactions accounted for 87% of total transactions, up from 82% in 2020. We also continued to make inroads in automating internal processes through straight-through-processing which contributed towards a further reduction in the Group's cost-to-income ratio. The stability and uptime of our information systems were also exceptional during the year as we directed continued investments towards strengthening our infrastructure and network stability.

An agile and capable team

I continue to be inspired by the character and capacity of the Nations Trust team, reflected by their ability to cope and adapt to unique challenges presented by the pandemic. We made significant progress in implementing hybrid working solutions, with over 300 employees facilitated to work remotely through the provision of technology, infrastructure and necessary emotional support. Through our unique development initiative, Nations Academy, the Group continued to provide opportunities for skill development while nurturing our inbuilt intellectual capital through knowledge sharing and mentoring support from the leadership team. We also maintained a high level of employee interaction through digital platforms, ensuring that employees remained engaged and motivated despite working remotely.

Risk-conscious culture

Our efforts to propagate data-drive decision making through leveraging our capabilities in data modelling and behavioral scorecards served the Group well during the year. These tools have enhanced our predictive capabilities, facilitating the early identification of vulnerable industries and customer segments, thereby supporting targeted expansion in selected segments. Continued efforts were placed on strengthening credit risk management through close engagement with customers and offering tailor-made solutions to support their viability following the expiry of moratorium periods. Liquidity management was a critical focus given the market conditions that prevailed, and the Group cautiously managed its net open positions and foreign currency liquidity levels. The increased thrust towards digitalisation has led to an inevitable increase in the Bank's vulnerability to IT and cyber-risk and we continued to strengthen our cyber security frameworks through a robust IT governance framework and increased investments in our security infrastructure.

Positive impacts

We firmly believe that our long-term resilience and sustainability is contingent on the degree to which we deliver multi-stakeholder value through positive impacts. Social and environmental consciousness has always been embedded in the way we do business and in how we interact and support our stakeholders. During the year, we strengthened the ESMS policy in our efforts to integrate environmental and social considerations to our lending portfolio. Through our long-term partnerships we have continued to raise awareness on biodiversity conservation. We also continue to drive meaningful change in vulnerable communities through supporting underprivileged schools. During the year Nations Trust Bank made significant contributions towards the national effort to combat COVID-19 through donating medical equipment and consumables to the Ministry of Health and front-line health workers.

Way forward

Sri Lanka's successful vaccination drive has to some extent alleviated concerns on further disruptions from the pandemic, with economic activity gradually resuming. Macro-economic headwinds, particularly the foreign currency crisis and escalating inflation are likely to present inevitable challenges in the short-to-medium term. Against this backdrop, supporting our customers through the pandemic will be a top-of-mind priority as we continue to carefully monitor cashflows and formulate tailor-made solutions to mitigate vulnerabilities. Continued emphasis will be placed on enhancing our digital offering through increased digital enablement, and in-house development of last mile applications. Overall the Bank will pursue opportunities for growth both within and outside Sri Lanka, as we leverage on our inherent strengths and capabilities to drive our strategic aspirations.

Appreciation

As I step down as Chief Executive Officer, I would like to extend my gratitude to the Chairman and fellow members of the Board for the valuable counsel extended over the years. I have been truly privileged to lead the Nations Trust team and I extend my deepest appreciation to the Corporate Management Team and each and every employee for their support and commitment. I would also like to thank the Governor, Deputy Governors, Assistant Governors and Officials of the Central Bank of Sri Lanka and the Chairman and fellow directors of Sri Lanka Bankers' Association for their continued guidance and support. I congratulate Mr. Hemantha Gunathilake, who takes over as the new Chief Executive Officer and wish him the very best. My gratitude also goes out to all our customers, business partners and other stakeholders for their support and loyalty over the years.

Thank you.

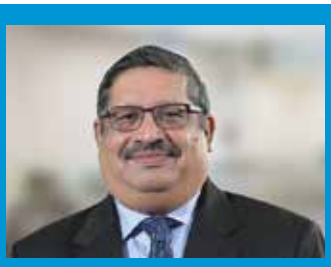
Priyantha Talwatte
Director/Chief Executive Officer

23rd February 2022

Board of Directors

Gihan Cooray
Chairman/Non-Executive Director

Priyantha Talwatte
Chief Executive Officer/ Executive Director



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

Rachini Rajapaksa
Independent Non-Executive Director

Russell De Mel
Independent Non-Executive Director

Sumit 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

Chandika Hettiarachchi
Non - Executive Director

Theja Silva
General Counsel/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, the Board Credit Committee 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 and Board Information Technology Advisory Committee of the Bank.

Current appointments:

Serves on the Boards of Nations Insurance Brokers Limited, Allied Properties Limited, Waldock Mackenzie Limited, Financial Ombudsman Sri Lanka (Guarantee) Limited, Sri Lanka Bank's Association and also serves as a member of National Payment Council of Sri Lanka

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 19 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.

He has been the Chief Executive Officer of the Bank since April 2020.

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 Integrated Risk Management 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), India
- 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 and Asianet Satellite Communications Limited .

Board of Directors

Skills and experience:

Has been associated with HDFC since 1984 and is currently responsible for investor relations, strategy, corporate planning and budgeting, 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.

(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, Human Resources and Remuneration Committee and Board Information Technology Advisory Committee of the Bank.

Current appointments:

Serves on the Boards of Nations Insurance Brokers Ltd , Asset Enterprises (Pvt) Ltd and 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 Human Resources & Remuneration Committee of the Bank.

Current appointments:

- Serves on the Boards of TAL Lanka Hotels PLC (Taj Hotels, Sri Lanka) 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 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.

Sub-committees Served:

A member of Board Information Technology Advisory Committee

Current appointments:

- Appointed as Managing Director and CEO of Fairbridge Capital in 2018.
- Serves on the Boards of Fairfax India Holdings Corporation, Bangalore International Airport Limited, CSB Bank Limited, Thomas Cook (India) Limited, Anchorage Infrastructure Investments Holdings Limited, Fairchem Organics Limited, Sterling Holiday Resorts Limited, Seven Islands Shipping Limited, Maxop Engineering Company Private Limited, Saurashtra Freight Private Limited, National Commodities Management Services Limited, Fairfreight Lines Private Limited and Fairbridge Capital Private Limited.

Previous appointments:

- Audit and Accounting Advisory at KPMG in India.

Skills and experience:

He is a Certified Fellow 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 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, Arpico Ataraxia Asset Management and A C P Investments (Pvt) Ltd

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 eighteen 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 stake holders 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.

(MS) SHERIN CADER

(Non-Executive Director)

Date of appointment:

Appointed to the Board on 15th December 2018

Sub-committees served:

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

Current appointments:

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

Previous appointments:

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

Skills and experience:

Ms. Cader counts over 24 years 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 and the Association of Chartered Certified Accountants of UK. 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 Related Party Transactions Review Committee of the Bank.

Current appointments:

- Independent Consultant
- Head of Private Equity-Lyner Partner (Pvt) Ltd
- Serves on the Boards of The Laundromat (Pvt) Ltd, Global Rubber Industries (Pvt) Ltd, The Fabulous Gateway (Pvt) Ltd, Ayenka Holdings (Pvt) Ltd and Global Sea Food (Pvt) Ltd

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, Board Credit Committee and Board Information Technology Advisory Committee of the Bank

Current appointments:

- Serves on the Boards of 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

Board of Directors

- 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 experience in banking, finance and business administration. He is an Associate of the Chartered Institute of Bankers (U.K.). 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 on 25th January 2021

Sub Committees Served:

Chairman of the Board Information Technology Advisory Committee of the Bank.

Current appointments:

- Executive Vice President /Group CIO of John Keells Holdings PLC
- Serves on the Boards of John Keells Information Technology (Pvt) Ltd, Infomate (Private) Limited and John Keells BPO Solutions Lanka (Pvt) Ltd

Previous appointments:

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

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 over 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 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 Institute of Engineers, UK.

CHANDIKA HETTIARACHCHI

(Non - Executive Director)

Date of appointment:

Appointed to the Board on 5th January 2022

Current appointments:

Director-Marketing of Central Finance Company PLC

Serves on the Boards of Waldock Mackenzie Limited, Allied Properties Limited, CF Insurance Brokers Limited, Central Transport and Travels Ltd and CF Growth Fund.

Previous appointments:

Following positions were held at Central Finance Company PLC prior to being appointed as the Director/Marketing

- Senior Manager - Credit
- Assistant General Manager - Credit
- Senior Assistant General Manager - Credit /micro Leasing /Product development
- Deputy General Manager - Credit and Product Development
- General Manager - Marketing and Product Development
- Served on the Board of Leasing Association of Sri Lanka and council member of Sri Lanka Institute of Credit Management
- Mr Hettiarachchi has carried out many assignments for International Development Agencies as a Consultant including International Finance Corporation (IFC).

Skills and experience:

Mr Chandika Hettiarachchi is an Associate member of the Chartered Institute of Management Accountants of UK (ACMA) and a Chartered Global Management Accountant (CGMA). He holds a Master of Business Administration Degree from the University of Wales, UK.

Corporate Management

Priyantha Talwatte
Director/Chief Executive Officer

Hemantha Gunetilleke
Deputy Chief Executive Officer

Theja Silva
General Counsel/ Company Secretary

Ramanika Unamboowe
Executive Vice President- Human Resources

Ajith Akmeemana
Chief Financial Officer

Senal Seneviratne
Executive Vice President
- Corporate Banking

Lasith Nanayakkara
Chief Transformation Officer

Perry Savundranayagam
Executive Vice President - Treasury/ Investment Banking

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 Aryasinghe
Senior Vice President
- Collections & Recoveries

Kushlani Allis
Senior Vice President
- Internal Audit

Sanjaya Senarath
Chief Marketing Officer

Harsha Perera
Senior Vice President - Operations Service Delivery

Saaraa Warnakulasooriya
Chief Compliance Officer

Buddhikka Seelanatha
Acting Chief Information Officer

Vice Presidents

Renuka Senadheera
Vice President - Consumer Services

Rasanja De Silva
Vice President - Branches

Menaka Wavita
Vice President - Commercial Banking

Lasith Ranatunga
Vice President - Corporate Credit & Special Asset Management

Milroy Fernando
Vice President
- Branch Operations & Compliance

Shiyamal De Silva
Vice President - Banking Operations

Vidharshana Perera
Vice President
- Consumer Collections

Evan Ranasinghe
Vice President - Management Reporting & Planning

Asela Wijesinghe
Vice President/Head - Forex and Money Markets

Nishantha Pathirage
Vice President - Corporate Banking

Shohan Alles
Vice President - Transaction Banking

Jeremy Gnanapragasam
Vice President
- Nations Transformation

Kalana Kumarasinghe
Vice President - Digital Enablement & Software Development

Sampath Lokubarana
Vice President - Branches

Dinesh Gunasekara
Vice President - Leasing

Chaminda Dheerasinghe
Vice President - Legal

Athula Weerasinghe
Vice President - Digital Infrastructure & Operations

Thilak Wijesinghe
Vice President - Information Security

Jakque Diasz
Vice President - Treasury Sales

Thushara Asuramanna
Vice President
- SME Credit Management

Value Creation Model

CAPITAL INPUTS

Financial Capital

Shareholders' funds
LKR 40.2 Bn

Deposits and borrowings
LKR 327.1 Bn

Cash generated from operations
LKR 5.9 Bn

Digital Capital

LKR 333.8 Mn
investment in digital capabilities

29
Core IT systems

Human Capital

2,677
Young and agile workforce

Experienced and skilled leadership team and strong Board

Intellectual Capital

Agile and innovative organisational culture

Organisational tacit knowledge

Best in class digital capabilities

Strength of the Nations Trust brand

Social and Relationship Capital

Responsible banking practices and solid stakeholder relationships

Social license to operate

Manufactured Capital

96 Branches
99 ATMs
64 CRMs

Property, plant, and equipment
LKR 3.3 Bn

Natural Capital

Energy and water consumption

Healthy functioning of the eco system

VALUE TRANSFORMATION

VISION

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

Business Activities Delivered through four business verticals

Lending
↓
Deposit mobilisation
↓
Transactional banking services
↓
Facilitating payments
↓
Digital solutions

Corporate (page 22)
Treasury (page 23)
Commercial (page 24)
Consumer (page 25)

Aligned to our strategic aspirations

- Business Focus
- Customer Experience
- Cost & Efficiency Management
- Digitisation and Automation

Underpinned by,
Robust corporate governance practices
Effective risk management
ESG focus

OUTPUTS

LKR 233.5 Bn
Loans Disbursed

LKR 14.6 Bn
NII Generated

36 Mn
Transactions Processed

LKR 4.6 Bn
Payments to Employees

LKR 1.39 Tn
Value of Digital Transactions

LKR 7.7 Mn
Training Investments

2,085 tCO2e
Carbon Footprint

OUTCOMES

Financial Capital

+Profit after tax: Rs. 6.7 billion
+Return on equity: 17.9%
+Earnings per share: 22.2
+Dividend per share: 3.5
+NAVPS: 141.48 (+14%)

Manufactured & Digital Capital

Digital transactions: Rs. 1.39 Trillion (87% of total transactions)

14% growth in digitally active clients

Enhanced customer convenience and experience

39% cost to income ratio through automation and digitalisation

Human Capital

Dynamic, inclusive and performance-oriented working environment

Facilitated remote working arrangements for 295 employees, thereby ensuring employee well-being

Intellectual Capital

Enhanced organisational capital through nurturing a culture of learning, agility and responsiveness

Social & Relationship Capital

Net promoter score: 35

Tax payments: Rs. 3.7 billion

Investment in CSR initiatives: Rs. 8.3 Mn

Increased customer convenience through digital propositions

Natural Capital

Estimated paper savings of 22 MT through automation and digital onboarding

56% of the loans & advances are screened for social & environmental criteria

Ongoing efforts to reduce environmental footprint

Stakeholder Relationships

The Group understands the interdependencies that exist between the organisation and the stakeholders who influence and are impacted by our decisions. We place strategic emphasis on understanding the concerns of our stakeholders and responding to these issues through honest and regular dialogue. Given the uncertainty that prevailed during the year, we strengthened engagement with stakeholders, ensuring that we understood their topics and concerns and responded effectively through strategic interventions.

	Shareholders	Employees	Customers	
Engagement mechanism	• Annual General Meeting (Annual) • Investor Forums (Quarterly) • Annual Report (Annual) • One-to-one engagement (Ongoing) • CSE Announcements (Ongoing) • Periodic engagement with credit rating agencies	• Employee Engagement Surveys (Annual) • Performance appraisals (Annual) • Digital engagement (Ongoing) • Staff meetings at multiple levels (Ongoing) • Employee suggestion schemes (Ongoing) • Grievance Reporting Procedure (Ongoing) • Work life balance events (Ongoing)	• Online and local engagement by branch teams and relationship managers (Ongoing) • Customer satisfaction surveys (Annual) • Market research (Ongoing) • Product promotion campaigns (Ongoing)	
Topics and concerns raised in 2021	• Sustainable growth in earnings • Implications of COVID-19 on the Group's financial performance and position • Returns commensurate with risks assumed • Transparent and timely communication • Robust corporate governance risk management practices • The Group's social and environmental impacts	• Attractive reward structures • Health and safety at workplace • Opportunities for remote working • Opportunities for skills development and career progression • Job security • Inclusive and equitable work environment	• Convenient and seamless delivery channels • Innovative product solutions • Fair pricing • Fast response times • Good customer service • Clear and accurate information on financial services provided	
Value delivered	65% growth in EPS LKR 3.5 DPS	LKR 4.6 Mn employee value addition LKR 7.7 Mn investment in training	NPS of 35 LKR 233.5 Bn loan disbursement 14% growth in digitally active clients	
Our response	Smart execution of a holistic and timely strategy has enabled the Bank to deliver on its stakeholder commitments during the year. (Page 31)	Embraced the new realities of the post pandemic world facilitating remote working and increasing engagement via digital platforms.	Customer centric solutions and personalised service in supporting customers through the challenging times.	

	Suppliers, service providers and business partners	Government/Regulators	Community
	• One to one engagement (Ongoing) • Written communication (Ongoing) • Relationship building initiatives (Ongoing)	• Statutory reporting (Ongoing) • Meetings and industry forums (Ongoing)	• Local branch engagement (Ongoing) • Social events and sponsorships (Ongoing)
	• Opportunities for mutual value creation • Timely payment • Ease of doing business • Good business practices • Timely disclosure of relevant information	• Compliance to all relevant regulations • Timely payment of taxes • Job creation • Financial inclusion • Supporting the Government's cashless drive through digital solutions • Good governance and business practices	• Employment generation • Good business practices • Positive community impacts • Preserving
	LKR 4.4 Bn payments to suppliers	LKR 3.7 Bn tax payments Full compliance to relevant regulations	LKR 8.3 Mn investments in CSR initiatives
	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.

Business Line Reviews

Corporate Banking

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

Strategy and Performance

The Corporate Banking Division delivered a resilient performance, supported by a selective growth strategy which enabled the Bank to strengthen its competitive position in key growth sectors of the economy. Despite macro economic challenges, the loan portfolio recorded good growth as the Bank aggressively pursued customer acquisition in selected industry sectors. NII growth, however, was contained by the relatively low interest rate scenario although effective margin management enabled the preservation of NIMs. Understandably, opportunities for offshore lending were limited, given shortages in foreign currency in the market during the year. The Division maintained relentless focus on preserving portfolio quality, increasing fee income and generating operating efficiencies, which supported profitability.

The Division pursued growth opportunities in sectors such as exports and local manufacturing which are aligned to the national development agenda. The Bank successfully on boarded several large new to bank export customers while recording growth in the renewable energy and agriculture sectors. The Division's competitive edge stemmed from its superior service proposition, strong relationship management and faster turnaround times in approving and disbursing facilities.

The Division continued to leverage the Bank's best in class digital capabilities to offer convenient and pragmatic solutions to corporates. This included enhancements to cash management solutions, tailor made offerings and host to host solutions among others. The Division also relaunched the bank's corporate online platform Nations Direct Enterprise (NDE), offering convenient trade and payment solutions to corporate customers.

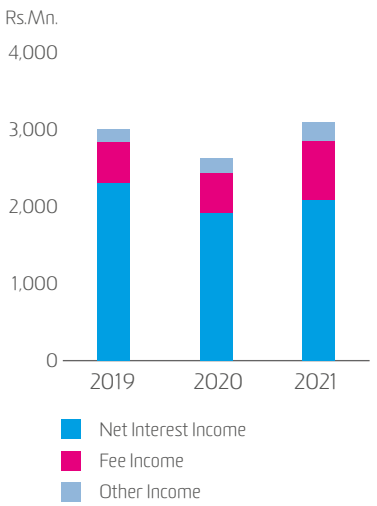
Strategic focus on preserving portfolio quality through strong monitoring, risk profiling and ongoing customer engagement enabled the Division to achieve an improvement in portfolio quality, with the gross NPL ratio declining to 1.1% from 2.2% in 2021. Continued support was also extended to customers affected by the pandemic through restructuring and rescheduling facilities.

In line with Nations Trust's overall strategy, the Division focused on harnessing cross-sell opportunities across business verticals. This included collaborations with cards and FriMi which facilitated further penetration in structured financing, supply chain financing and collection solutions.

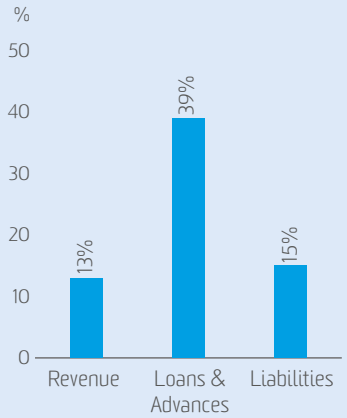
Outlook

- Continued focus on supporting the growth of export and local manufacturing businesses
- Further expansion of digital solutions through launching a gateway for government payments
- Increased emphasis on propagating sustainable business practices through our lending decisions including promoting renewable energy, increasing lending towards women led businesses
- Drive increased penetration and customer centricity through the Bank's Home Branch concept

Divisional Performance - Corporate



Contribution to Group - Corporate



Performance Highlights

	Y-o-y change (%)
Loans & advances	44%
Revenue	18%
Deposits	107%
Cost to income ratio (%)	Remained unchanged

Operating Environment

- Pandemic led disruptions and implications on repayment capability
- Foreign currency shortage and resultant implications on import customers
- Low interest rate environment
- Customers' increased thrust towards digital banking

Treasury

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

Strategy and Performance

The Treasury Unit's performance in 2021 was supported by a timely strategy aimed at effectively managing emerging risks given the volatility that prevailed during the year. Strategic emphasis was placed on optimising the Bank's liquidity while cautiously managing net open positions. This in turn enabled the Unit to withstand market volatilities to a certain extent, recording a revenue and profit growth of 20% and 15% respectively.

Fixed Income: With the yield curve remaining flat for most part of the year, opportunities for generating capital gains through trading were limited. The Unit made conscious efforts to reduce the duration of the portfolio, repositioning it to capture future opportunities, given the likelihood of interest rates increasing in 2022.

Forex Trading: The Unit's Forex operations comprise customer forex trading and proprietary trading. Despite the challenges that prevailed, the Unit proactively fulfilled the requirements of both existing and new customers, maintaining a high level of customer engagement throughout the year. While margin management remained challenging, this was offset by good volume growth which in turn resulted in the Division outperforming the budget. Meanwhile, a fairly healthy liquidity position enabled the Unit to leverage funding and lending opportunities effectively during the year, resulting in strong profit generation by the FX proprietary trading unit. The Bank continued to adopt the strategy of utilising the FX SWAP book to fund its rupee loan growth with focus placed on broad basing counterparties to diversify risks.

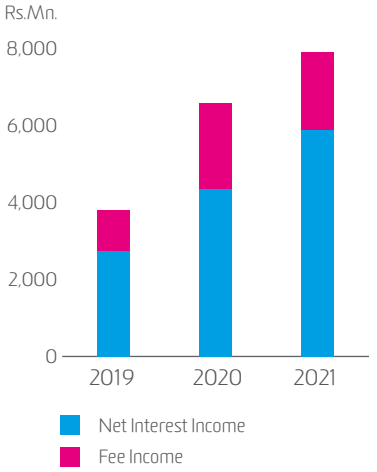
Asset Liability Management: The ALM desk is responsible for ensuring that the Bank has sufficient funding to drive its growth objectives. We successfully pursued low cost funding options through the SWAP market, affording the Bank a strong platform to drive growth in 2022. Funding costs remained relatively low for most part of the year, enabling the Bank to maintain NIMs. Deposits accounted for 71% of total funding during the year and recorded a growth of 11% in 2021.

During the year the Unit sought to realign its structure, strengthening capabilities in trading and sales which in turn will enable Treasury to leverage synergies across the Bank's business verticals. In line with the Bank's overall strategy, driving cross-sell opportunities will be a key priority for 2022, as the Treasury Unit seeks to transform to a dynamic, sales focused division, serving the requirements of both internal and external customers.

Outlook

- The country's foreign currency stress is likely to prevail in the short to medium term, necessitating the prioritization and management of customer's import requirements
- The Division will align with the Bank's overall strategy of driving increased customer acquisition in export oriented sectors.

Divisional Performance - 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.

Performance Highlights

	Y-o-y change (%)
Revenue	20%
Customer FX income	24%
Cost to income ratio (%)	Dropped by 2%

Operating Environment

- Implications of the foreign exchange shortage and exchange rate volatility
- Low interest rate environment
- Regulatory developments

Business Line Reviews

Commercial Banking

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

Strategy and Performance

The Division's performance reflected the moderating economic conditions during the year, and this efforts to consolidate the portfolio and preserve portfolio quality. Strategic focus was directed towards supporting existing customers in navigating the challenging operating environment. The Division's portfolio increased by 16%, while NII declined by 9%. The moderation in NII coupled with contingent impairment provisions resulting from the weakening macro-economic climate adversely impacted profitability.

The Division continued to focus on supporting customers through the crisis, maintaining proactive engagement and offering customised financing solutions to ensure commercial viability. One to one engagement with customers was enhanced, offering individual plans for repayment and providing guidance on effectively managing cashflows. Continued access to banking services during the lockdown was facilitated through the roll out of innovative digital solutions. The Division also offered access to concessionary funding making significant contribution with both Saubhagya scheme and the Bank's Nations Diriya Scheme. The Division also partnered with the Ministry of Finance and CBSL in disbursing over LKR 1.7 billion through an ADB funded working capital facility for SMEs. The Division also sought to upskill its credit offers, equipping them with fresh perspectives on effectively managing the portfolio in post-pandemic realities.

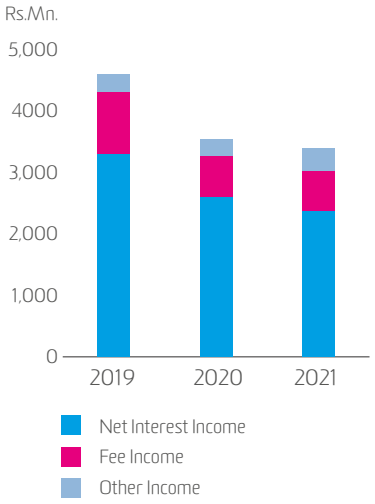
The Division strengthened its digital offering to it customers, launching the Nations Direct integrated cash management system for commercial customers. Digital enablement of customers occurred at an unprecedented rate with over 62% of the Division's transactions conducted through digital platforms. Focus was also placed on automating several internal processes within the Division, resulting in increased efficiencies and a consistent decline in the cost to income ratio.

The Division is keen to play its part in driving the Bank's sustainability aspirations, particularly through supporting the empowerment of women. During the year, the Bank was appointed as a participatory financial institution for disbursing funding for women led businesses, building capacity and providing advisory services through an ADB funded loan scheme. The Bank also has a robust environmental and social risk management framework that enables to manage risk.

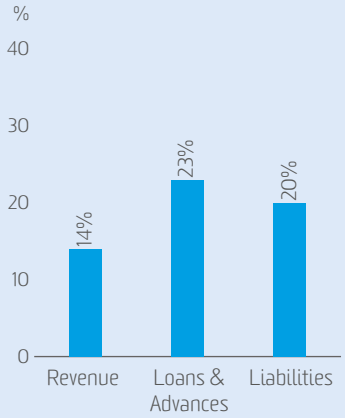
Outlook

- The Division will continue to pursue opportunities in local manufacturing which supports import substitution and renewable energy sectors
- Ongoing engagement to provide a more holistic value proposition to customers including guidance on enhancing operational efficiencies, automation and cost rationalisation
- Pursue cross sell opportunities through leveraging synergies with the Bank's credit card, digital and FriMi business pillars

Divisional Performance - Commercial



Contribution to Group - Commercial



Performance Highlights

	Y-o-y change (%)
Loans & advances	16%
Revenue	-4%
Deposits	14%
Cost to income ratio (%)	Dropped by 3%

Operating Environment

- Slowdown in economic activity following pandemic led disruptions
- Implication of foreign exchange shortage and import restrictions
- Rising interest rates and inflationary pressures
- Domestic and global supply chain disruptions

Consumer Banking

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

Strategy and Performance

A timely strategy centered on selective lending, de-risking the portfolio and preserving quality enabled the Consumer Division to deliver a commendable performance in a challenging year. The loan portfolio remained unchanged while NII decreased by 10%. Profitability was however, upheld by a reduction in impairment costs, effective margin management and ongoing focus on operating efficiencies.

The lending strategy focused on identifying and catering to the most resilient sectors of the economy. Accordingly, increased penetration was sought in the mass affluent and private banking segments. In line with the Bank's overall strategy, the Division also adopted a lifecycle approach to lending, moving away from a product push and offering customer centric, relevant solutions based on specific needs. This was driven by increased customer engagement at branch level, supplemented by the Bank's strong digital proposition which enabled a deepening of relationships across the customer lifecycle.

The Division made significant progress in pursuing cross-sell opportunities, supported by the launch of Nations Synergies which aimed at harnessing synergies across the Bank's business verticals. While increasing wallet share, this strategy also enabled the Bank to offer a holistic banking experience to customers, thereby strengthening retention and satisfaction.

The Bank's digital strategy has focused on leveraging technology as an enabler in transforming the entire customer journey. As discussed in further detail on page 37 of this Report, the Bank made significant progress in strengthening its digital proposition during the year, with the launch of several innovative and customer centric solutions. Following its successful repositioning as a fully-fledged digital bank last year, FriMi continued to strengthen its market leadership position through deepening relationships across the ecosystem and launching innovative payment solutions. The Division recorded a 14% increase in digital transactions during the year, with 87% of transactions now conducted via digital platforms.

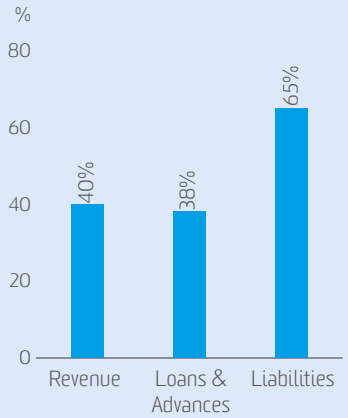
While pandemic led disruptions impacted credit card spending in certain months, the segment's overall performance was upheld by the release of pent up demand in other periods. We adapted our proposition to suit market conditions with the launch of several new promotions including food delivery, online grocery and emergency health payments. The Segment also leveraged its analytical capabilities and behavioral scorecards to engage in targeted marketing and customer acquisition.

The leasing portfolio contracted by 12%, reflecting the continued restrictions on the importation of vehicles. Continued focus was placed on strengthening the Bank's position in the second-hand market led by exclusive partnerships with local suppliers, exiting high risk relationships and driving increased digital enablement among customers.

Outlook

- Leverage the strong foundation placed in 2021 to pursue selective growth opportunities
- Detailed work done to support customers through the crisis through advisory and restructuring of facilities is likely to result in the preservation of portfolio quality, after the conclusion of moratoriums
- Focus on institutionalizing lessons learnt during the pandemic, particularly on cost management, organisational restructuring and optimising human capital

Contribution to Group - Consumer



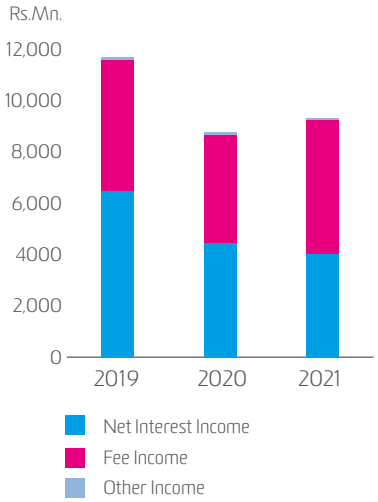
Performance Highlights

	Y-o-y change (%)
Loans & advances	0%
Revenue	7%
Deposits	1%
Cost to income ratio (%)	Dropped by 9%

Operating Environment

- Conducive interest rate environment supported credit demand
- Pandemic led disruptions to branch operations
- Import restrictions on motor vehicles and significant volatility in vehicle prices

Divisional Performance - Consumer



Operating landscape

Economic Environment

Economic growth:
The recovery of the global economy has been divergent across regions and nations, with access to COVID-19 vaccinations and policy support emerging as key drivers of growth. The IMF projects the global economy to expand by 5.9% in 2021, before weakening to 4.9% in 2022 reflecting resurgence of infections in emerging markets and supply chain disruptions. Meanwhile, in Sri Lanka, Pandemic led disruptions together with implications of the current foreign exchange stress situation adversely impacted economic activity, with the GDP estimated to have grown by 4% during the year. Despite the macro-economic headwinds, businesses demonstrated adaptation to post pandemic realities including operating under conditions of limited mobility.

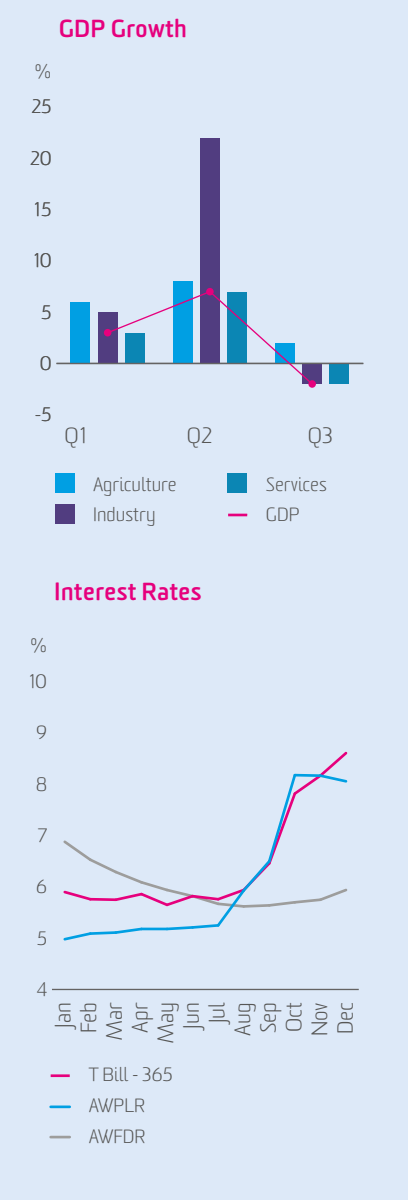
Interest rates:
Since adopting an expansionary monetary policy stance following the outbreak of COVID-19, the CBSL sought to tighten monetary conditions from the 3rd quarter of 2021, in a bid to stem rising inflationary pressures. The SDFR and SLFR were increased by 50 bps, while the Bank Rate was also increased by 0.5%. The SRR on rupee deposit liabilities were also increased by 2% to 4% from the 1st of September 2021, resulting in market interest rates also recording a gradual uptick by end 2021.

Inflation:
Supply side disruptions, together with removal of price controls and an increase in money supply led to higher inflationary pressures particularly during the 2nd half of the year; headline inflation and core inflation increased by 12.1% and 8.3% y-o-y respectively.

External position and exchange rate:
Sri Lanka's foreign currency reserves depleted rapidly in 2021, reflecting the pandemic led drop in tourism earnings and workers' remittances, together with significant settlement of borrowings during the year. As the country's external position weakened, international rating agencies downgraded Sri Lanka's sovereign rating. However, the Government has to date honored all its debt servicing commitments in a timely manner.

Sri Lanka's export earnings increased by nearly 25% up to November 2021, reflecting gradual recovery in key source markets, which saw industrial exports (including garments) recording a strong rebound. Meanwhile, imports also increased by 27% during the same period reflecting the escalation in global commodity prices, which saw the country's fuel bill increasing by 43% during the year. Resultantly the trade balance widened by 29% during the year. The drop in remittances and tourism earnings resulted in the overall balance of payments deficit increasing by 67% during the period.

Outlook: The foreign exchange stress situation presents a threat to the country's economic recovery in 2022, with restrictions on imports and possible fuel shortages. However, expected tourism sector recovery and export growth would defend this situation to some extent. The IMF projects Sri Lanka's economic growth to moderate to 3.3% in 2021 while urgent policy measures and reforms will be required to address these vulnerabilities and stabilize the country's current economic condition.



Banking Industry

Sri Lanka's banking industry remained resilient despite numerous external challenges, recording strong loan growth, effective cost management, healthy interest margins and an overall improvement in profitability. On the other hand, portfolio quality and capitalisation levels weakened marginally during the year. Key highlights are presented below:

Growth

The Sector marked continued expansion, with asset growth of 18% y-o-y to LKR 16.49 Bn by 3Q 2021.

- Credit growth of 16% supported by increased lending to government sector organisations, retail, and SME sectors
- Investment growth of 20%
- Fixed asset growth of 8%

Portfolio Quality

- Weakening of portfolio quality given moderating economic conditions
- Gross NPA ratio increased to 7.8% from 7% in 2020
- Portion of the credit portfolio remains under moratorium and could lead to stress upon cessation of moratoriums

Performance

- 2% growth in total income, driven by 18% expansion in non-interest income
- NII growth of 27% supported by a reduction in interest expenses in line with the repricing of deposit liabilities
- Increased thrust towards digitisation and automation have led to a reduction in the industry's cost to income ratio to 42.4%
- 47% increase in PBT to LKR 192.45 Bn

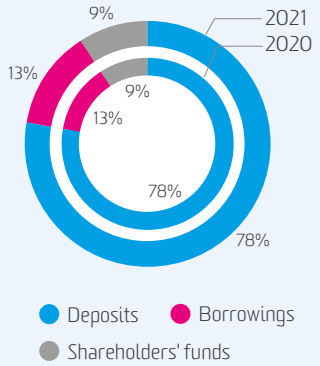
ROE: 15.1% (2020 Q3:10.9%)

ROA: 1.3% (2020Q3:1.0%)

Funding

- 14% growth in shareholders' funds
- 18% deposit growth
- 18% expansion in borrowings, driven by 83% growth in domestic borrowings. Foreign borrowings declined by 23% during the year.

Funding composition



Capitalisation

Marginal decline in capitalisation ratios in line with the strong credit growth during the year.

Ratio	2020 Q3	2021 Q3
Tier 1 capital ratio	13.0%	12.9%
Common equity Tier 1 ratio	12.9%	12.5%
Capital adequacy ratio	16.6%	16.2%

Regulatory developments

- Extension of the grace period offered on Saubhagya COVID-19 facility up to 31 December 2021
- Introduction of a Refinance Scheme to support State Owned Enterprises (SOE)
- Guidelines to limit the outflow of foreign currency including,
  - I 100% cash margin requirement on selected imports
  - II Restrictions on entering forward rate contracts
  - III Suspension on investments in Sri Lanka ISBs
  - IV Caps on interest paid on foreign currency deposits and requirement
- Measures to tighten monetary policy
- Directions on strengthening contingency plans
- Restrictions on discretionary payments of licensed banks
- Sell 25% of the foreign currency converted by the general public through export proceeds and worker remittances to the CBSL.

Operating landscape

Opportunities and Risks

Macro economic headwinds

Developments: As the country faces pressure on both external and fiscal fronts, macro economic uncertainty will feature prominently in the risk landscapes of all organisations. Despite depleting foreign currency reserves, Sri Lanka has to date honoured its debt commitments fully in a timely manner. Meanwhile the Government has adopted a strategy of pursuing debt relief from bilateral creditors, providing policy stimuli for the export sector and implementing measures to restrict foreign exchange outflows.

Opportunities:

- Growth opportunities in the country's export, import substitution and local manufacturing sectors
- Strengthening local supply chains

Risks:

- Exchange rate volatility
- Broad based implications of foreign currency stress situation on manufacturers/traders who rely on imported raw materials
- Potential margin pressure given rising interest rate scenario

Our response

We proactively monitor emerging developments and take a prudent approach in managing our foreign currency liquidity and open positions. We are also committed to contributing to the Government's development agenda through supporting the export sector and local manufacturing sectors and participating in providing debt relief for affected companies under the government programmes.

Technological Disruption

Developments: The pandemic led to an unprecedented shift towards digital platforms, with technology emerging as a key competitive differentiator. Advances in technology are resulting in the transformation of all banking aspects including customer experience, dis-intermediation, delivery channels, process automations and competition, among others having wide ranging impacts on financial services over the next few years.

Opportunities:

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

Risks:

- Emergence of new risks pertaining to technology, cybersecurity and information

Our response

The Bank has successfully carved a niche position as a digital front runner in the industry and has continued to raise the bar in transforming the customer experience through innovative and seamless solutions.

Customer Sophistication

Developments: Customers have access to more information and are increasingly demanding more convenient access and control of their finances, which in turn has transformed the way they prefer to interact with Banks.

Opportunities:

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

Risks:

- Increased competitive intensity for customer acquisition and retention

Our response

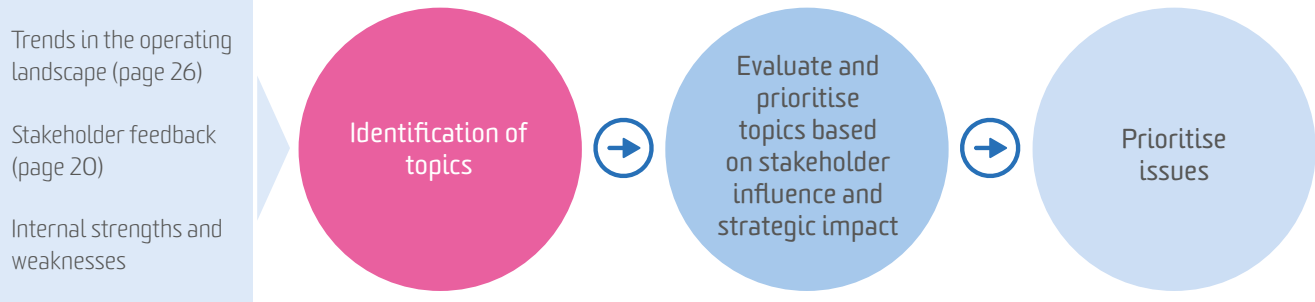
The Group leveraged its digital capabilities to actively drive customers to transact through digital means while enhancing one on one engagement to truly support customer centricity.

New ways of working	
Developments: Some organisations have embraced remote working as a long term solution in reducing operating costs and ensuring better work life balance of employees.	**Opportunities:** • Increase employee productivity and reduce overhead costs • Build a satisfied and resilient workforce **Risks:** • Need to reassess payment structures • Employee isolation and resultant impact on motivation and performance
Our response We have implemented stringent health and safety protocols across the organisation and activated a pandemic response plan which ensures continuity of operations in the event of cross infection within our facilities.	

Focus on ESG factors	
Developments: The pandemic has spotlighted the role businesses should play in driving sustainable development and contributing towards a more equitable, greener planet. Financial institutions are increasingly under pressure to deliver on their ESG commitments through green lending practices, climate action plans and driving financial inclusion.	**Opportunities:** • Support Sri Lanka's drive towards renewable energy • Pursue sustainable financing options **Risks:** • Escalating risks of climate action failure
Our response We are committed to strengthen our ESG practices through establishing the right governance structures, formulating an ESG strategy, identifying risks and opportunities relating to ESG factors and monitoring performance on an ongoing basis.	

Material Topics

The Bank's material topics are based on feedback received from stakeholders, continued scanning of the operating environment and 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 uncertainty and turbulence in the operating environment led to shifts in the Bank's materiality landscape as presented below. 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 195 of this Report. This year, we have added GRI 207: Tax, GRI 303: Water and effluents and GRI 306: Waste to our material topics while GRI 403: Occupational health and safety was removed. The topic boundaries remain unchanged compared to the previous year.

Material topic	Materiality compared to 2020	Page reference for further information
Growth and profitability	■	6, 34 - 35
Health and safety	▲ Increase in importance given emergence of 2nd and 3rd waves of the pandemic in Sri Lanka	40 - 44
Responsible lending	■	46 - 48
Customer experience	■	31, 46 - 48
Digitisation	▲ Reflects customer's unprecedented shift towards digital channels	37 - 39
Operational efficiency	■	31, 34
Employee attraction	■	40 - 44
Training and development	■	40 - 44
Employee satisfaction	▲ Increase in emphasis given shift to hybrid working models	40 - 44
Corporate Governance and Compliance	■	53 -57
Reduce environment impacts through our lending and across our operations	▲ Reflects higher expectations from organisations in contributing towards sustainable development and Board focus on the same	49 - 50
Corporate Social Responsibility	■	46 -48

▲ Increased in importance ■ Unchanged

Delivering our Strategy

The Group's strategic interventions remained consistent with the priorities adopted last year. Foresight in identifying and capitalising on growth sectors of the economy, strategic focus on preserving portfolio quality and ongoing efforts to build a lean and agile operating model enabled Nations Trust to demonstrate strong resilience to external pressures. Progress made in each of the strategic pillars are summarised below:

Strategic pillar	Highlights in 2021	KPIs	Way Forward
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.	• Capitalise on growth opportunities in selected industry segments including exports and manufacturing • Selective lending across all product segments to optimise risk return dynamics • Customer centric approach to deepen relationships through customised solutions • Preserving portfolio quality through early de-risking of portfolio by leveraging data capabilities • Launch of Nations Synergy to pursue cross sell opportunities among product verticals	• Portfolio growth of 18% led by, • Corporate Banking: 44% • Commercial Banking: 16% • Gross NPA ratio of 4.9% (2020: 7.2%) • Cross sell ratio of 1.52 (2020: 1.47)	• Continue to pursue growth opportunities across selected industry sectors • Offer holistic value propositions which include advisory and capacity building across product verticals • Ongoing focus on strengthening employee capabilities
Customer Experience Transform the customer experience through digital delivery, increased convenience and personalised solutions.	• Digital first approach and focus on transforming the entire customer journey to a digital experience • Early identification of vulnerable and support them through restructuring facilities and realigning cashflows • Strengthen one to one engagement with customers thereby enhancing service proposition	• Net Promoter Score: 35 • 94% of customers onboarded digitally	• Efforts to drive fully fledged digital solutions across the customer journey
Cost and efficiency management Achieve sustained reductions in cost through rationalising operational expenditure, driving process efficiencies and effectively managing credit/ impairment costs	• Continued automation of processes, delivering increased efficiency and accuracy • Detailed analysis and rationalisation of all cost items • Combined roles and redeployed employees to right size teams	• Cost to income ratio declined further to 39% (2020: 45%) • Total operating expenses decreased by 2% • >40 processes automated	• Institutionalising learnings obtained in recent years to ensure optimum organisational functioning over the long term

Delivering our Strategy

Strategic pillar	Highlights in 2021	KPIs	Way Forward
Digitalisation and automation Leverage our best in class digital capabilities to drive innovation, efficiencies and enhance the overall customer experience	• Launch of several new digital features across customer journey including video KYC, electronic KYC, electronic CRIB report and Value addition to FriMi • Launched Nations Direct Enterprise cash management platform for commercial banking customers • Enhanced features in the corporate banking platform • Support Sri Lanka's drive towards a cashless economy through partnering with the regulators to facilitate digital payments • Ongoing investments in ensuring network stability and security • Offered a range of customised transactional banking solutions • Digitalisation of customer onboarding and account maintenance • Digitalisation of cash collection processes through launch of S - Collect	• 87% of transactions conducted digitally (2020: 82%) • 14% growth in digital transactions	• Focus on developing last mile applications in house through a dedicated development centre • Pursue opportunities to widen our ecosystem by leveraging on the FriMi infrastructure

Integrating Sustainability

We are cognisant of the gradual yet definite shift in stakeholder interest on organisations' ESG (Economic, Social and Governance) performance when assessing the overall success of businesses. On the other hand, given the dramatic shifts in risk landscape in recent years, understanding of ESG impact is now essential in managing risks and opportunities within businesses and building more resilient operating models.

At Nations Trust, social and environmental consciousness has always been embedded in the way we do business and in how we interact and support our stakeholders. While not formally adopting the precautionary principle, the Group ensures that social and environmental factors are given due consideration when making investment decisions. During the year, we sought to articulate our approach in a more holistic and strategic manner, thereby defining clear goals and action plans in achieving our social and environmental aspirations while deepening the integration of ESG factors into our operations.

APPROACH TO ESG

E

Managing environmental impacts across our operations and value chain

- Climate Action (Page 49)
- Increase reliance on renewable energy
- Enhance energy efficiency
- Optimising the use of natural resources (Page 50)
  - Reduce paper consumption through digitisation
  - Optimise water consumption
- Biodiversity preservation (Page 50)
- Green lending decisions (Page 49)

S

Empowering customers, employees and communities through sustainable business practices

- Creating an inclusive, dynamic and agile workplace (Page 40)
- Supporting women led businesses through targeted lending schemes
- Community well being through impactful CSR projects (Page 48)

G

Adoption of best practices and standards in ESG performance

- Ethics, transparency and accountability (Page 53)
- Managing environmental and social risks through robust ESMS systems (Page 50)
- National and international collaborations to achieve SDGs (Page 46)

SUSTAINABLE DEVELOPMENT GOALS

Capital Management

Financial Capital

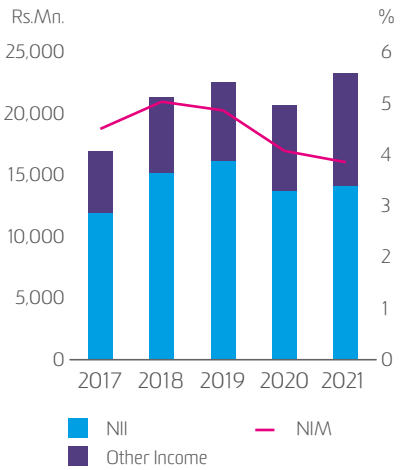
"The Group delivered record profitability amidst numerous challenges, supported by an astute lending strategy, effective margin management, good portfolio quality and a healthy foreign currency liquidity position which enabled it to capture market opportunities. With capitalisation and liquidity buffers strengthened, the Group is well positioned to drive its growth aspirations while withstanding potential external stress"

Financial Performance

Net Interest Income

Consolidated Interest Income declined by 13% during the year, reflecting the Bank's selective lending strategy as it sought to optimise risk-return dynamics by increasing exposure to the Corporate segment. Interest income was also affected by the interest rate ceilings on several product categories such as credit cards and leasing. However, proactive and timely repricing of assets and liabilities enabled the Group to reduce interest expenses by 24%, which in turn resulted in an NII growth of 3%. The relatively slower NII growth, against a portfolio expansion of 18% reflects the Group's conscious efforts to de-risk its portfolio which in turn led to the net interest margin narrowing to 3.85% compared to 4.07% the previous year.

Income Trends



Other Income

Net Fee and Commission recorded a strong growth of 27%, led by expansion in trade finance facilities as the Group placed strategic focus on increasing penetration in the export segment. Credit card related fees and commissions also showed good growth, reflecting the normalisation of spending patterns in comparison to 2020. Net gains from trading increased by 26% to LKR 2.79 Billion, driven by the Group's efforts to leverage its healthy foreign currency liquidity to capitalise on lending opportunities arising from the shortage in the banking system. The Bank continued to adopt a funding strategy of utilising the FX SWAP book to fund its rupee loan growth. Overall, the Group's Operating Income increased by 12% to LKR 23.00 Billion during the year.

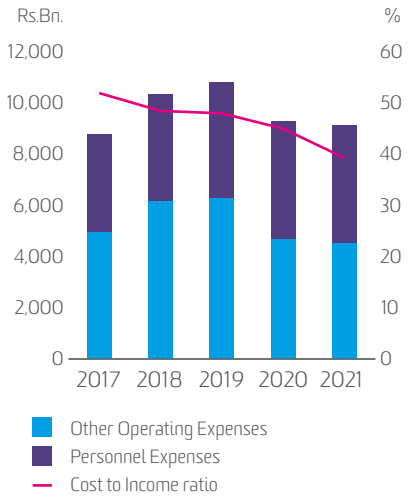
Impairment Charges

The Group's impairment charges declined by 3% during the year, a commendable achievement given macro-economic stress and pandemic-led disruptions to business activity during the year. This reduction was achieved through relentless focus on driving collections and proactive monitoring and reflects the Bank's overall strategy of prioritising credit quality over volume growth during the year. We also continue to engage closely with customers in offering personalised repayment plans/ facility restructuring as part of our efforts to preserve portfolio quality. Resultantly, the Group's gross NPL ratio recorded a considerable improvement to 4.9%, from 7.2% the previous year. The downgrade of Sri Lanka's sovereign rating necessitated an increase in the impairment of SLDB investments, although Nations Trust's exposure is relatively low.

Cost Management

Ongoing efforts to drive cost efficiencies through automation, lean management and enhancing employee productivity has led to a consistent decline in the Group's cost-to-income ratio. Increasing focus on straight-through-processing, digital onboarding and combining roles also led to a reduction in headcount as natural attrition took place. Accordingly, despite the growth in business volumes, the Group's total operating expenses declined by 2%, driven by reductions in both personnel expenses and other operating expenses. This led to a sharp reduction in the cost-to-income ratio to 39%, from 45% the previous year.

Cost Management



Taxation

Taxes and levies on financial services increased by 33% owing to the improved profit performance. However, the Group's income tax, declined by 14% to LKR 1.73 Billion during the year, reflecting the reduction in the tax rate from 28% to 24%; in addition to the charge for 2021, this included a reversal of the excess charges for 2020.

Approach to taxation: The Group's tax strategy is implemented by a dedicated unit, functioning under the CFO and centres on optimising the effective tax rate to ensure continued contribution to Government revenue while fulfilling shareholder needs. The Group engages in proactive tax planning, pursuing growth in tax efficient products and investments. Cordial and transparent relationships are maintained with the tax authorities. The Group was fully compliant to all relevant tax regulations and guidelines during the year, with tax compliance monitored by the Board on a regular basis.

Profitability

The Group's pre-tax profit grew by 39% to a record-high of LKR 8.42 Billion attesting to the Group's strategic foresight and resilience in an extremely challenging year. Meanwhile profit for the year surged by 65% to LKR 6.69 Billion and is the result of effective margin management, healthy portfolio quality, cost efficiencies and the Group's ability to capitalise on lending opportunities in the interbank foreign currency market. This enabled the Group to generate superior shareholder value with Earnings per share increasing to LKR 22.2 (from LKR 13.5 the previous year) and Return on Equity widening to 17.8% from 12.2% the previous year.

Financial Stability

Total Assets

Total assets increased by 12% to LKR 379.55 Billion during the year; this was driven by an 18% growth in loans and advances, as the Group pursued selective lending opportunities in the Corporate (+44% y-o-y) and Commercial (+16% y-o-y) books while the Consumer book remained unchanged. Given the conditions that prevailed during the year, the Group strengthened its liquidity position, with cash and cash equivalents increasing by 47% to LKR 13.43 Billion during the year. Investments in Government Securities were also increased during the year and accounted for 26.4% of total assets, resulting in a comfortable statutory liquidity ratio of 32.82%. Proactive efforts were made to reduce the duration of the portfolio, repositioning it to capture future opportunities given the likelihood of interest rates increasing in 2022.

Capital & Funding

The funding position strengthened during the year, supported by strong profit generation, good deposit growth, issue of senior debt and receipt of USD 65 million foreign funding from development financial institutions. The Group's shareholders' funds increased by 14% to LKR 40.16 Billion, funding 10.6% of total assets.

Total liabilities increased by 12% during the year, reflecting good deposit growth and access to foreign funding lines. Deposits increased by 11%, led by 38% CASA growth given the prevalent interest rate environment and the Group's focus towards enhancing its CASA base. The Group also successfully raised LKR 4 Billion through an unlisted, rated, senior, redeemable debenture. Resultantly, the Tier 1 and Total Capital ratios 14.77% and 17.46% by end-December 2021, comfortably above the regulatory requirements.

Outlook

Efforts to strengthen capital and liquidity buffers have positioned the Group to withstand potential stresses that may arise from macro-economic vulnerabilities, particularly in the short-to-medium term. From a portfolio perspective, our lending strategy will be consistent to that of 2021 as we seek penetration in selective segments. Increasing wallet share through driving synergies will be a key priority for 2022 as we leverage cross-sell opportunities. Ongoing focus will also be placed on generating cost efficiencies and preserving portfolio quality.

Capital Management

Manufactured Capital

The Group's Manufactured Capital is represented by its physical infrastructure including, land, buildings, vehicles, office equipment, furniture and fittings to the value of LKR 3.3 billion, i.e. less than 1% of total assets as at end December 2021. With the Bank's recent thrust towards digitisation, investments directed towards physical infrastructure have been limited and capital investments for the year amounted to only LKR 52 million primarily for maintenance and upkeep.

Branch operations

Around 22% of our branches remained fully functional during the lockdown periods, However we ensured uninterrupted access of banking services to the customers. In ensuring the well being of our customers and employees, a dedicated task force was appointed to determine the opening of branches based on the risk of infection in the relevant geographical area. Staff availability was, at times affected by branch employees inevitably contracting the virus, although the Bank ensured that operations continued with minimal disruptions across the network. We continued to direct investments towards implementing stringent safety and hygiene measures, in line with the recommendations of the health authorities. Given the conditions that prevailed during the year, the Bank did not engage in any new branch openings or relocations in 2021.

Meanwhile, following the launch of the Bank's residential work from home model, measures were taken to shift critical infrastructure (including over 295 personal computers) to employees' residences. Accordingly, the employees attached to the processing centre, 24/7 contact centre and the collection staff were facilitated to work from home. In addition to safeguarding employees' physical well being and supporting work life balance, this initiative also enabled the Bank to benefit from cost savings and efficiencies across the network.

Delivering our strategy through our branches

The Bank leveraged its island wide network of branches to drive its strategic aspirations as follows:

- Engaged closely with customers across the branch network to clearly identify and fulfill their specific requirements through personalised solutions
- Reached out to middle market customers to identify opportunities for growth, particularly in the export sector
- Drive continued automation of processes, delivering increased efficiency and accuracy
- Encourage customers' digital enablement through understanding their needs and directing them to digital solutions

Optimising our natural resources

ESG Focus

The Bank's branch reach can play a vital role in driving optimisation in the use of natural resources, in line with our overall environmental commitment. We continue to raise employee awareness on reducing energy and water consumption across our network while driving concerted efforts towards rationalising paper consumption and encouraging recycling of paper. Meanwhile, a culture of reduce, recycle and re use across all branches encourages the responsible disposal of waste. (refer to page 50 for further information)

Manufactured Capital

96 Branches

64 CRM

99 ATM

LKR 3.3 Bn PPE

Role in value creation

Facilitate customer acquisition and serves as key points of contact across the network

Drive internal efficiencies and process improvements across the network

Drive the Bank's environmental commitment through optimising the consumption of natural resources

Outcomes

LKR 233.5 billion
Total Lending to Customers

> 750,000
Customers reached

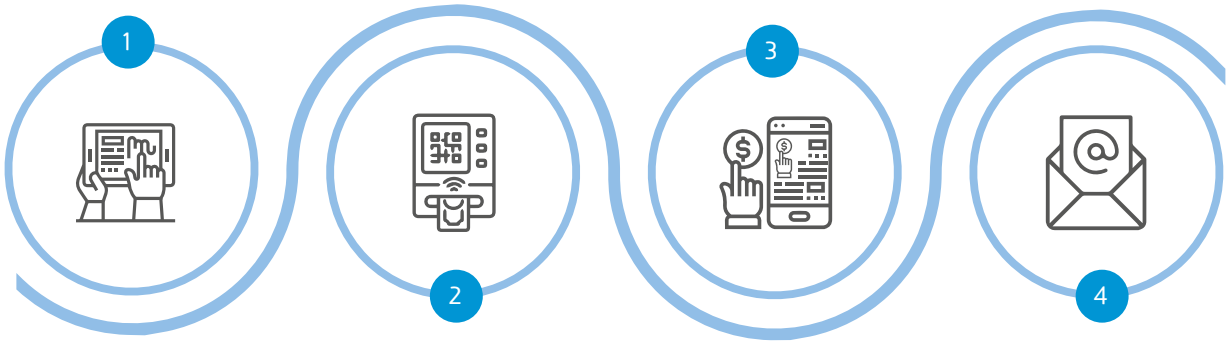
LKR 224 billion
Deposits mobilised

Digital Capital

Digital capital has taken centre stage in the Bank's future fit strategy, as Nations Trust has pushed the boundaries in reimagining banking in a digital world. The Bank's approach has centered on leveraging technology as an enabler in transforming the entire customer journey, thereby offering, convenient and accessible digital solutions delivered through secure and seamless platforms.

Reinventing the customer journey

The Bank capitalised on the customers' unprecedented shift to digital platforms post pandemic, focusing on mapping the entire customer journey and bringing it to life through digital solutions. These propositions were enabled by the Bank's best in class online and mobile banking platforms and ATM/CRM solutions. The Bank's digitally active customers increased by 14% in 2021, resulting in digital transactions accounting for 87% of total transactions during the year (2020: 82%). Meanwhile, digital payments surpassed cash deposits for credit card, loan and lease settlements. Key developments made in the customer journey during the year were as follows:



Onboarding

Nations Alpha

Fully digital customer on boarding platform, rolled out in 2021, inclusive of eKYC and vKYC features. This front end development has enabled paper less opening and activation of accounts under 9 minutes, eliminating the need for customers to visit a branch and significantly reducing the time taken compared to the conventional physical process.

Customer Management

Smart ATM and CRM

Smart ATMs that allow customers to self activate cards and generate a green PIN.

Host of self servicing features including, shortcuts to frequently used transactions, 'Favorites' feature, selection of exact bill mix when dispensing cash, display of available withdrawal limit among others.

Smart Collect

Digitalisation of cash collection, integrating online settlement methods for credit cards, loans and leases.

Smart Statements

Offers a holistic overview of their transactions and in depth analysis of the portfolio, eliminating the need to collate individual statements across different accounts. The statements include interactive tools and informative graphs, providing customers the rich insights needed to manage their finances.

Communications

Nations E-Box

Nations E-Box gives access to customer letters, notices and advise including the following:

- Withholding Tax and Fixed Deposit renewal notice
- Fixed Deposit under lien notice
- Fixed Deposit renewal notice
- Fixed Deposit liquidation/ redemption notice
- Cheque Stop Payment acknowledgement

Meanwhile, automation of back-end processes including archival and data storage and straight through processing of over 40 processes, have minimised errors and increased accuracy and contributed towards consistent reductions in the Bank's cost to income ratio.

Capital Management

Digital Capital

Nation wide digital enablement through FriMi

FriMi, Sri Lanka's first digital bank continues to make inroads in the fintech space, fortifying its market leadership position and spearheading innovative digital banking and payment solutions. Striving for wider financial inclusion through digital solutions, FriMi has been instrumental in building an ecosystem which facilitates digital payments between merchants and startups without significant investments. Key highlights in 2021 include the following:

- First private bank to be awarded a nationwide payment project for the rollout of QR based payments for the expressway, in partnership with the Road Development Authority (RDA)
- Actively contributing towards the 'Rata Purama LANKAQR' initiative by the Central Bank of Sri Lanka, in accelerating the shift of consumers towards digital payments
- Top priority App in exploring new features and understand traction in eKYC with the regulator
- Launch of the FriMi Thrift Master Starter Pack feature enabling practical saving functions that assists customers to achieve their financial goals.

Data driven decision making

Leveraging on the data received through each customer touch point, the Data Warehousing project enables rich insights and predictive analytics using real time data. With advanced modelling techniques, consumer spending patterns are analysed and unusual behaviour is detected to reduce the risk of fraudulent activity while positively impacting the customers' journey by navigating through the digital world. Collection of consistent and relevant data assists Branch Managers in measuring credit risk and providing personalized solutions with greater insight to customer behaviour.

FITIS Awards for digital excellence

Stability and data security

Continued investments in strengthening the IT infrastructure has ensured system stability to maintain reliable uptime and minimize service disruptions. Partnering with the largest service providers in the country we have ensured uninterrupted service with 99.97% uptime. During the year, we also engaged in server rationalisation, through identifying and optimising server capacity. With the implementation of the IP Network Management System, a dedicated team continuously monitors the Networking Operating Center for disruptions and failures. Meanwhile the Security Operating Center is manned by a security team to proactively detect and prevent any cybersecurity events.

Digitally enabled workplace

The Bank successfully embraced new ways of working, through swiftly transitioning to new work arrangements including remote working and work from home models. This ensured the uninterrupted servicing of customer needs while safeguarding employee health. In facilitating this transition, Nations Trust invested in digitally enabling employees and supporting their technical readiness through ongoing engagement and training programs.

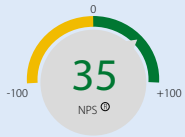
SLIM Awards - Online brand of the year

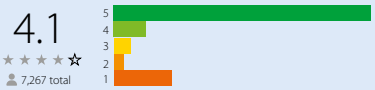
Digital Capital

Market leader in Just Pay
Share of 76.3% of transactions from 2018 to 2021

★★★★☆

4.45 Average Rating





Awards and Recognitions

Best Digital Bank 2021
World Economic Magazine

FriMi - Among the top 50 digital challenger banks in Asia Pacific

As affirmation of our leadership in the digital banking sphere, Nations Trust received 8 accolades at the FITIS Digital Excellence Awards 2021. This included,

- Connected Product - Gold (FriMi)
- Digital Marketing Strategy - Silver (FriMi)
- Workforce enablement - Gold
- Digitalised organisation - Silver
- Connected Partner Eco System - Silver
- Customer Centric Process Automation (Bronze)
- Digitalised Operation (Merit)
- Agile Operations (Merit)

Outcomes of digital enablement	Digital ready human capital
Cost saving through process automation and deploying human capital	'Tech Tuesday'- an initiative conducted on a weekly basis to equip employees adapt to new technologies through informative and interactive content.
Time efficiency through effective training, maximising potential and empowering people	Partnering with leading industry experts in local and international markets, virtual webinars have been hosted to keep abreast of the changing digital landscape
Improving Service delivery through access to seamless and convenient delivery channels and enhancing the experience	Employee contribution towards the Bank's digital transformation is recognized on a monthly basis, and opportunities are provided for employees to lead digital projects and initiatives.

Way Forward

The Bank is aptly positioned to capitalise on the trend of more customers embracing the digital frontier and demanding more sophisticated solutions. We will continue to enhance the customer proposition across the entire customer journey as we benchmark ourselves to reach global standards. Parallel importance will be placed on strengthening network stability and enhancing security aspects. Strategic emphasis will also be placed on upskilling employees to keep pace with the Bank's digital transformation.

Smart Statement

Mobile Banking

Lanka QR

Launch of 'Lanka Remit'

Multi Purpose ATM

Capital Management

Human Capital

Our dynamic and agile team of 2,677 employees have been a collective resource driving the Bank's resilience amidst a challenging business environment. As a preferred employer in the industry, we provide a conducive environment for employees of diverse backgrounds to develop critical competencies and thrive.

Managing our people

Our People Philosophy aims to drive shared employee value creation and is governed by a holistic HR framework which includes comprehensive Board approved policies and procedures. This framework provides a strong foundation to ensure equal opportunity while fostering diversity and personal growth. All policies are reviewed and updated every two years ensuring relevance to emerging dynamics.

People Strategy in 2021

- **Ensuring employee well-being and safety**

Challenges of working under pandemic conditions, compelled the organization to implement new working models to ensure uninterrupted operations while safeguarding employees.

- The Bank enrolled 295 employees in a residential work from home program, facilitating the technology and infrastructure to work remotely on full time basis. This program was well received by employees as they swiftly transitioned to remote working models while adapting digital platforms to conduct all aspects of engagement. The remaining employees worked on premise on alternative weeks in segregated teams.
- Employees were encouraged to obtain vaccinations, resulting in 99% of staff being vaccinated aligned to our efforts to make Nations Trust a safe zone.
- Special transport facilities were arranged for all critical employees

In addition, we continued to adopt stringent and proactive measures to ensure safety of employees, in line with the guidelines issued by the Health Authorities. These included,

- Care centers to accommodate infected employees
- Random PCR tests were conducted on a weekly basis
- Well being call outs to staff in quarantine centers were carried out during weekends

- **Digitalisation of HR**

In line with the Bank's overall digitalisation strategy, we continued to automate key HR functions including engagement and development solutions. A range of training content was delivered online, allowing the Bank to enhance its development proposition, despite pandemic led disruptions. Meanwhile virtual townhalls, regular discussions, activities and competitions encouraged proactive engagement through digital channels. Nations Connect, a cloud based HR information system allows all key HR management functions to be conducted through the App.

Nations Connect

Productivity indicators

LKR 8.7 Mn
Revenue per employee

2.5 Mn Net profit per employee

5% Reduction in employees (through natural attrition)

Human Capital

2,677 Employees

Average Age of 31

Across 23 Districts

45% Female Representation

Value addition in 2021

Hybrid work arrangements to ensure employee safety

Driving employee productivity through lean practices and automation

Multi skilling employees through combining roles and investments in talent development

Outcomes

LKR 4.6 billion
Value addition to employees

19,019
Training hours

85%
Retention rate

- **Driving employee productivity**

While embracing new ways of working, the Bank placed strategic focus on enhancing employee productivity. Strong collaboration across the organisation together with the implementation of lean practices resulted in organisation wide synergies between business units, allowing optimisation of human capital and right sizing of teams. Excess employees were upskilled and redeployed to new positions. Productivity improvements allowed the rationalization of expenses ensuring that all employees were remunerated in full without pay cuts or redundancies, despite the circumstances that prevailed during the year.

Team Profile

Our team of 2,677 employees is a dynamic and young work force with an average age of 31 years, bringing in potent energy and enthusiasm and sharpening the Bank's competitive advantage. In view of the uncertainty that prevailed during the year and the Bank's focus on right-sizing the team, new recruitments were minimal, and emphasis was placed on combining roles and reskilling existing employees for new positions. Natural attrition and lean management resulted in a reduction of 155 positions during the year.

Employees by employment contract and region

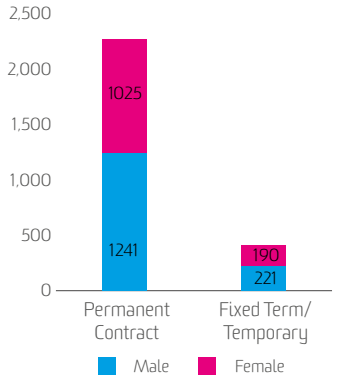
Region	Permanent	Temporary	Total
Western	1,781	352	2,133
Central	95	7	102
Southern	128	15	143
North Central	19	5	24
North Western	83	10	93
Eastern	36	2	38
Sabaragamuwa	39	11	50
Uva	42	6	48
Northern	43	3	46
Total	**2,266**	**411**	**2,677**

Employees by Age and Category

Category	Below 30		30-50		Above 50	
	Male	Female	Male	Female	Male	Female
Corporate Managers	0.0%	0.0%	0.4%	0.0%	0.3%	0.0%
Senior Managers	0.0%	0.0%	5.5%	1.0%	0.5%	0.2%
Managers	0.3%	0.3%	9.8%	5.0%	0.0%	0.1%
Deputy Managers	1.5%	0.8%	5.7%	3.0%	0.0%	0.1%
SBA	4.1%	5.2%	5.9%	4.1%	0.1%	0.0%
BA	8.4%	14.0%	2.1%	1.7%	0.1%	0.0%
TBA	1.1%	2.5%	0.0%	0.0%	0.0%	0.0%
FTC & TFTC	7.4%	7.0%	0.9%	0.1%	0.0%	0.0%
Minor & Other staffs	0.1%	0.0%	0.3%	0.2%	0.0%	0.0%
Total	**22.9%**	**29.9%**	**30.6%**	**15.1%**	**1.1%**	**0.4%**

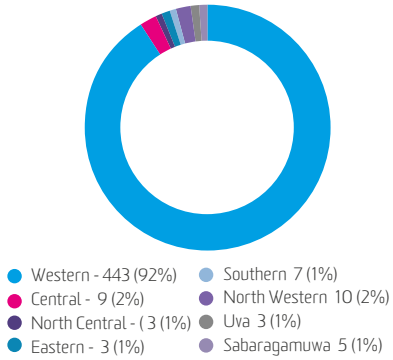
*The Bank does not engage employees on a part time basis

Employees by Contract and Gender

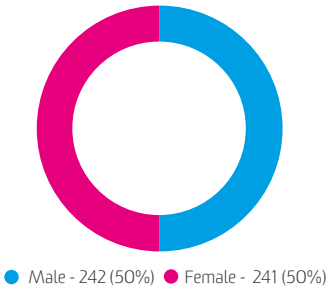


Profile of new recruits

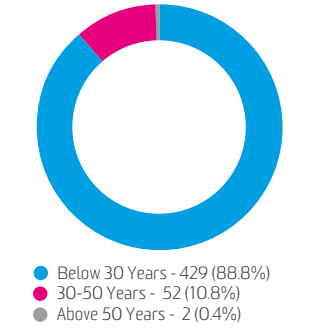
New Hires by Region



New Hires by Gender



New Hires by Age



Capital Management

Human Capital

Employee value creation in 2021

Employee Value Proposition

Engagement
High level of engagement and encouraging each employee to be a Brand Ambassador for the Bank

Rewards and Performance Management
Recognition and rewarding employees for their contribution

Diversity and Inclusion
Conducive organizational culture which promotes diversity and inclusivity

Talent and Career Development
Opportunities for skills and career development

Work Life Balance
Adopting hybrid working structures and allowing employees flexible working hours

Employee engagement

Employee engagement is a critical driver of our success contributing towards nurturing camaraderie, increasing employee loyalty and retention of talent. In line with the shift to remote working, we facilitated high levels of digital engagement to provide psychological security and connectivity. A summary of the engagement activities conducted in 2021 are set out below:

Virtual Strategy Discussion and Virtual Townhall meetings engaging over 600 employees

Religious and cultural activities

Online Toastmasters meetings and webinars

22nd Anniversary celebrations of the Bank

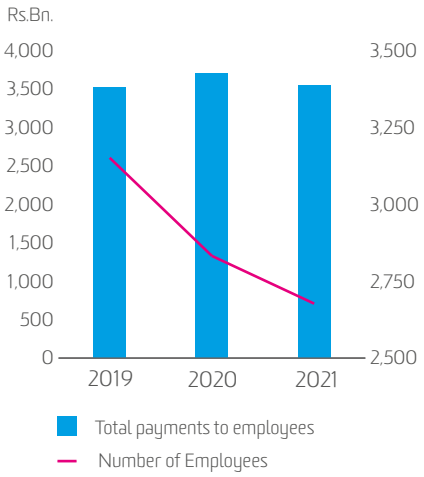
International Men's Day Celebrations

International Women's Day Celebrations

Rewards and Performance Management

Remuneration is structured to nurture a performance driven culture by balancing both guaranteed and performance based components. The Bank is committed to establishing a meritocracy driven career development path for all employees. Each job role is graded based on 5 competencies and appraised through a transparent evaluation scheme, with 100% of permanent employees receiving appraisals during the year. Job based certifications function as prerequisites for promotions. There were no major changes to the reward schemes during the year under review. In line with our overall strategy, we placed emphasis on creating synergies among business units providing opportunities for upward career mobility; accordingly, during the year 310 vacancies were filled internally.

Remuneration Paid

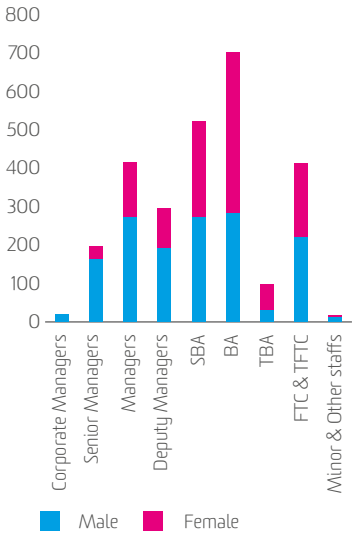


Diversity and Inclusion

ESG Focus

Nations Trust Bank is an equal opportunity employer and the organizational culture harnessed by the Bank champions diversity. We employ, remunerate and evaluate employees based on their merit, irrespective of gender, age or ethnicity. New work arrangements offering increased flexibility have been introduced to support female employees. The Bank's overall female representation is 45% while senior and corporate management level representation is 1%. We are committed to empowering women reach their full potential by eliminating bias, establishing mentoring programmes and providing guidance for professional development.

Employees by Category & Gender



Talent and Career Development

The Bank's unique lifecycle based training framework enables us to develop employees in a holistic and structured manner, in line with the Bank's strategic aspirations. Given the prevalent conditions, training was shifted to digital platforms, while initiatives such as 'Tech Tuesday' were launched to enhance digital capabilities across the organisation. In the spirit of mentoring and strengthening the Bank's organisational capabilities, training was mainly conducted through the Internal Faculty comprising members of the leadership team.

Mentoring the next generation of female leaders

Female staff with potential for career development are identified and encouraged to pursue positions with higher responsibility and challenges. Accordingly, the Bank launched 'Aspire to Lead' a unique program aiming to nurture female leaders through holistic mentoring programs. Aligned with the global theme of #Choose To Challenge, this ongoing program aims to train and mentor female colleagues to ensure future readiness. In the first phase of the program 23 aspirants will be coached under 9 mentors.

Category	Average Training Hours	
	Male	Female
Corporate Managers	11	17
Senior Managers	12	18
Managers	9	11
Assistant Managers	8	6
Senior Banking Assistants	9	7
Banking Assistants	7	4
Banking Trainees	9	10
Cluster Leaders	2	2
Fixed Term Contractees	2	3
Minor & Other Staff	1	0.5
Total Staff	**8**	**6**

Capital Management

Human Capital

Work Life Balance

Creating a harmonious equilibrium between work and life is integral in building a happy and motivated workforce. This is particularly critical for Nations Trust which has a relatively younger team, where conventional work methods need to be adapted to equip them to move forward and thrive. Hybrid methods of working were adapted to provide employees the flexibility to work from home while maintaining engagement to prevent isolation. Psychological well being of employees was at the forefront of concerns in the light of experiences undergone during the pandemic.

- Three training programs on Mindfulness was conducted with the participation of over 700 employees covering topics such managing stress and anxiety, effective parenting and preventing isolation among others.
- Wellness advice and fitness programs were conducted under the theme 'Wellness is Everybody's Business'.

Way Forward

Pandemic led disruptions have permanently changed the way we view work and workplaces, offering opportunities to build leaner, more agile organisations. We hope to capitalise on this trend through expanding our hybrid working model to fulfill employee expectations of better work life balance while aligning with the organisation's ambitions. Driving productivity and monitoring efficiency through digital platforms will take precedence as we launch a talent management framework based on the 9 box matrix model. We also hope to introduce an HR Partner Program, thereby appointing a relationship manager for larger employee groups who will serve as a liaison between departments.

2,224
Total Employees Trained

19,019
Training Hours

LKR 7.7 Mn
Training Investment

7 HRS
Average Training Hours Per Employee

Intellectual Capital

Our ability to offer pioneering, best in class solutions stems from the strength of our intellectual capital, honed over the years through a culture of knowledge sharing, mentoring and a relentless drive for innovation.

Tacit knowledge and expertise

With evolving social dynamics and customer sophistication, the skill profile required in the industry has transformed while competition for talent has intensified. The Bank's growth aspirations center on developing internal talent with ongoing investments in nurturing a diverse team that is future fit, digitally savvy, agile and responsive. This young team, coupled with experienced industry veterans, have enabled us to collectively build an extensive wealth of knowledge. Meanwhile lean ways of working and data driven decision making have become largely integrated to the organizational ethos as we continue to cultivate a culture of knowledge sharing through leadership and mentoring.

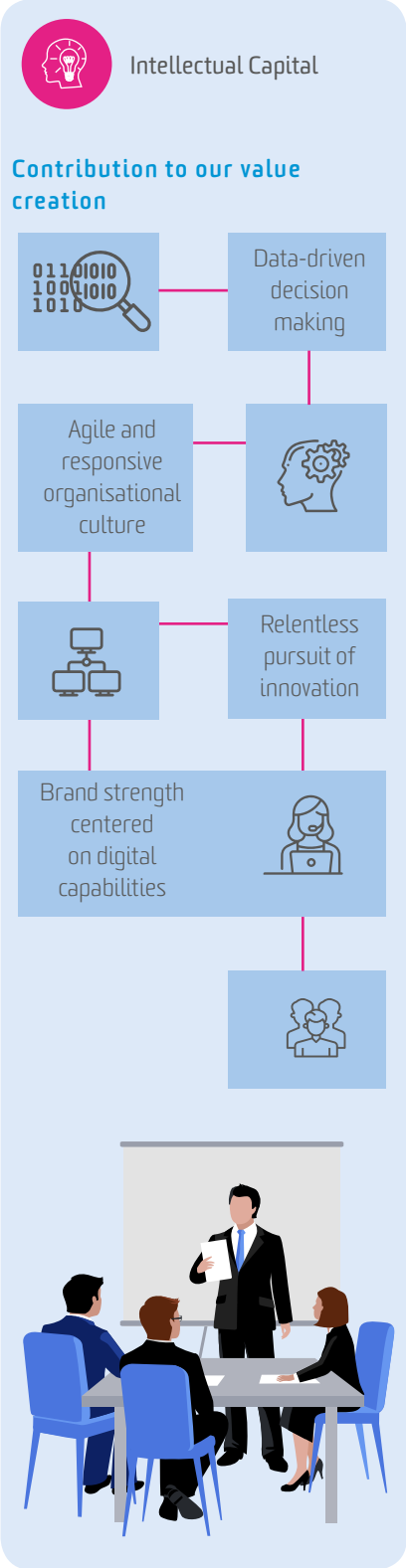
Systems and processes

We constantly review and upgrade our systems and processes to ensure flexibility and adaptability to the evolving business environment. The unprecedented uncertainty following the outbreak of the pandemic was navigated with greater agility by leveraging investments made in the digital sphere to streamline systems and processes. Developments in front end processes allowed the transformation of the customer experience to seamless digital journeys. Automation and improvements to back end systems enabled faster and more accurate processing with minimal errors.

Brand Value

Despite external volatilities, proactive measures implemented in recent years to reinforce human and digital capabilities has strengthened of our brand equity. The Bank continues to be ranked among Sri Lanka's top brands; in 2021, Nations Trust notched up by 3 ranks to emerge as Sri Lanka's 23rd most valuable brand, receiving an A+ rating

Recognition of our capabilities in revolutionizing the digital space and launching several industry first solutions have further elevated our brand equity. As a testament Nations Trust Bank was awarded 8 accolades at the FITIS Digital Excellence Awards & Conclave 2021.



Capital Management

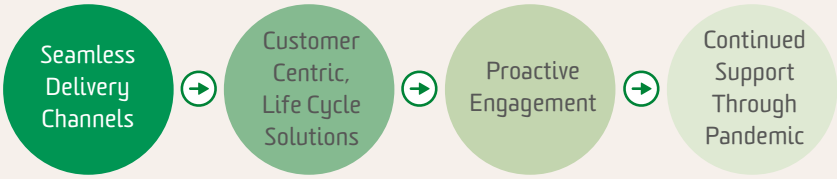
Social & Relationship Capital

Partnering with customers, businesses and the community at large to build networks of relationships has become increasingly critical in today's operating landscape. We continue to harness these relationships, facilitated by our employees who enable this engagement and take forward our aspiration of generating mutual value to society. The Group also ensures compliance to all relevant laws and regulations through regular monitoring and reporting to the Audit committee. During the year there were zero incidents of non-compliance with laws and regulations relating to the social and economic area.

Customers

The Bank caters primarily to the mass affluent segment across the consumer, corporate and commercial business verticals. Given the conditions that prevailed during the year, Nations Trust adopted an extremely selective approach to customer acquisition, placing emphasis on profitability and quality rather than volume growth. We also successfully onboarded new customers in selected industry sectors, including exports and local manufacturing.

Our customer value proposition for the year centered on the following pillars;



Seamless delivery channels

The Bank placed strategic emphasis on capitalising on customers' unprecedented shift towards digital channels, proactively enabling digital adoption among its customers. During the year, 87% of our banking transactions were carried out through digital channels ensuring continued access to banking services with minimal disruptions. We continued to make inroads in re-imagining banking in a digital world, amalgamating developments within each business segment to customers' digital journey. Key innovations during the year included the following;

- Launch of Nations Alpha, a fully digital, paperless customer onboarding platform which reduced account opening time from nearly 48 hours to 9 minutes
- Automation of account maintenance features including balance inquiry, card activation, interactive e-statements among others
- Launch of S Collect facilitating digitalized cash collection across all verticals
- Value additions to FriMi including the Bucket List feature
- Ongoing investments in strengthening network stability and security, which resulted in zero substantiated complaints regarding breaches of customer privacy and losses of customer data during the year.

  (refer page 37 for further information)

Customer centric, life cycle solutions

In line with our long term strategy, we are focused on sharpening our competitive edge through fulfilling the range of needs across the entire customer journey. Leveraging our deep insights on customer behaviour and advanced data analytical capabilities, we have pivoted towards fulfilling individual customer needs that are relevant to each stage of the customer's lifecycle. Accordingly, branches enhanced customer engagement to better understand their requirements more holistically and offer integrated solutions.

Social and Relationship Capital

- Over 750K customers
- Relationships with business partners
- Community relationships

How We Nurtured Our Social & Relationship Capital

Offer customer centric, lifecycle solutions through best in class digital channels

Mutually value adding partnerships with suppliers

Ongoing investments in strategic CSR projects

Medical equipment donations

Continued support through the pandemic

Pandemic led disruptions and moderating economic conditions presented challenges for many businesses requiring the Bank to reorient focus to keep customers afloat. The Bank deployed dedicated teams to identify vulnerable portfolios and realign solutions based on individual cashflows. This included, restructuring facilities, suspension/refund of various charges, and offering advisory services in managing cash flows. We continued to support Government efforts to revive businesses through partaking in the 'Saubhagya' loan scheme and disbursing over LKR 20 billion through our own 'Nations Diriya' Loan Scheme.

Customer engagement

We enhanced engagement with customers, both through digital platforms and across our branch network to proactively identify and cater to emerging needs. This was supplemented by the 24X7 contact centre and call-out program. All information relating to product features, interest rates, terms and conditions are easily accessible and clearly communicated across our engagement channels. There were no instances of non-compliance concerning product and service information and labelling or marketing communications during the year.

Membership of Associations

Institute of Bankers of Sri Lanka
Ceylon Chamber of Commerce
Leasing Council of Bankers of Sri Lanka
Sustainable Banking Initiative of the Sri Lanka Banks' Association
The Employers' Federation of Ceylon
Payment Card Industry Association Of Sri Lanka
The Financial Ombudsman Sri Lanka (Guarantee) Limited
The Sri Lanka Institute Of Directors
Association of Compliance Officers of Banks - Sri Lanka
International Chamber of Commerce Sri Lanka
Sri Lanka Forex Association
American Chamber Of Commerce In Sri Lanka
Exporters Association of Sri Lanka

Business Partners

Our alliance with business partners is integral to the seamless functioning of the Bank and we strive to maintain a collaborative and mutual value adding partnerships. We engage with over 1,290 suppliers, merchant networks, outsourcing and franchise partners and are committed to driving synergies through such relationships.

Strategic partnerships entered into in 2021 are summarised below:

- Partnered with Singer (Sri Lanka) PLC by appointing them as a sub agent to disburse foreign inward remittances through their 430 branches located across the country, thereby increasing accessibility and convenience to customers.
- Strategic partnership with Paycorp International a pioneering IPG in Sri Lanka to protect consumers against fraud. This alliance supports our merchant business partners by allowing seamless plug and play solutions and enhanced capabilities to conduct secure e-commerce transactions.
- Partnership with MMBL Money Master, offering Sri Lankan customers access to Western Union International money transfer pay-outs, thereby enabling increased accessibility in receiving remittances.
- FriMi entered a strategic partnership with Samsung Sri Lanka, thereby enabling Samsung retailers to become merchants and conduct money management through the FriMi App.

Communities

ESG Focus

Nations Trust has a long history of supporting underprivileged communities through strategic and impactful CSR projects. Our initiatives are formulated inline with our overarching goal of 'Empowering the Next Generation' and are centered on the two key pillars of Education and Environmental Stewardship. These pillars are aligned to the Sustainable Development Goals of Quality Education (Goal#4), Climate Action (Goal#13), Life below water (Goal#14) and Life on land (Goal#15).

CSR Governance

During the year, the Bank further strengthened its CSR governance through the formation of two operational committees with clearly defined responsibilities on formulating and implementing the CSR strategy. Through a Board Directive, 1% of Profit After Tax from the preceding year is allocated for CSR activities for the current year.

Policy formulation	CSR Steering Committee Consisting of 7 members of the Corporate Management Team
Strategy formulation	CSR Committee 12 VP/AVP level members
Project implementation	Team represented by 14 middle and junior management members

Measuring our Progress

35 Net Promoter Score

Incidents of non-compliance concerning product and service information and labelling	Nil
Incidents of non-compliance concerning marketing communications	Nil
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

Capital Management

Social & Relationship Capital

In addition, we sought to raise employee awareness on the Bank's CSR activities through the launch of 'CSR News' magazine which aims to foster a community conscious culture across the organisation and encourage volunteerism in our initiatives.

A summary of the Bank's CSR initiatives for the year are given below:

Donation of medical equipment

Over 700 employees contributed half a day's salary to donate essential medical equipment of Rs.1.6 million to the Bio Medical Engineering Unit at the Ministry of Health as part of the national COVID - 19 response. Meanwhile, the Bank also donated a portable ventilator worth Rs. 2.18 Mn to the Colombo South Teaching Hospital in Kalubowila and 4500 medical scrub suits to medical staff around the island.

Supporting local arts

Nations Trust Bank has been a long-standing supporter of local arts and culture, sponsoring various art intuitions and events such as the Annual Kala Pola. In 2021, the Bank supported the Saskia Fernando Gallery to host the online 'Support Local Arts Talk Series' which aims to strengthen engagement among Sri Lanka's art community. Various panelists including prominent art patrons gather to discuss a range of topics including their unique experiences, expertise, concerns and formulate solutions needed to overcome challenges.

Environmental stewardship

Ongoing projects in raising awareness on biodiversity conservation, animal rescue and rehabilitation (refer to page 50 for further information)

Flood relief

The Bank partnered with the Keells Supermarket chain to distribute LKR 10,000/- worth of grocery items to 33 members of staff and their families that were impacted by the recent floods.

Supporting underprivileged schools

Conducted as an ongoing, strategic CSR initiative the Bank continued to uplift underprivileged schools by donating a full year's worth of school supplies and essentials to over 570 students. Providing access to quality education and creating equal learning opportunities for students especially in under privileged schools in rural areas has been an integral focus in the Bank's CSR initiatives. Over the years the Bank has also facilitated digital literacy of the future generations by providing schools with fully equipped IT and science laboratories.

School	No of Students benefited
Gnaneshwara Vidyalaya, Nithalava Galgamumwa	259
Wahalkada D-5 School - Kebithigollewa	149
Amunuthenna Primary Secondary School – Gallella Ratnapura	101
Mullivaikkal Tamil School - Mulaitivu	70

School supplies donations

Natural Capital

As a responsible corporate citizen, Nations Trust remains committed to mitigating the adverse environmental impacts of its operations while propagating sustainable practices across its value chain by encouraging customers to make sustainable lifestyle and investment decisions.

Management Approach

ESG Focus

The Bank's environmental agenda is a key pillar of its ESG Strategy and centres on priorities listed below. This is underpinned by a comprehensive framework of policies, systems and processes. During the year, the Bank was fully compliant with all relevant environmental regulations and guidelines.

Climate Action

As a financial institution, Nations Trust is primarily exposed to the risks of climate change through lending to climate sensitive sectors such as Agriculture and Tourism. Meanwhile natural disasters resulting from climate change could impact continuity of the Bank's operations. We are yet to quantify the impacts of climate change to the Bank. We are committed to doing our part to reduce our impact on the climate through ongoing focus in increasing the energy efficiency of our operations. This includes raising employee awareness on energy conservation and investing in energy efficient cooling and lighting solutions. We also continue to rationalise the use of printers, scanners and photocopiers and has achieved a gradual reduction in the number of devices over the last few years. During the year, the Bank's energy consumption amounted to 6.5 Gwh, a decrease of 20% compared to 2019 (fully functional Year). Accordingly, energy intensity (defined as energy consumed per employee) decreased by 6%.

Our Environmental Priorities

The Bank's carbon footprint for the year is summarised below:

Carbon dioxide equivalent emissions (tonnes of CO2e) - 3 Main Offices							
	2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Scope 1	107	227	129	183	142	313	100
Scope 2	1,359	1,410	1,935	1,781	1,856	1,931	1,856
Scope 3	618	899	940	1,127	1,361	1,473	1,327
Total	**2,085**	**2,536**	**3,005**	**3,091**	**3,359**	**3,717**	**3,284**
% change previous year	-17.79%	-10.94%	-2.78%	-7.98%	-9.64%	13.21%	
% change base year	-43.91%	-28.01%	-19.16%	-16.85%	-9.64%		
Number of NTB Employees	1,443	1,536	1,475	1,442	1,398	1,351	1,303
% change previous year	-6.05%	4.14%	2.29%	3.15%	3.48%	3.68%	
% change base year	6.81%	13.69%	9.18%	6.74%	3.48%		
Tonnes of CO2e per employee	**1.44**	**1.74**	**2.04**	**2.14**	**2.40**	**2.75**	**2.52**
% change previous year	-17.07%	-14.48%	-4.96%	-10.79%	-12.68%	9.19%	
% change base year	-47.49%	-36.68%	-25.96%	-22.10%	-12.68%		

Capital Management

Natural Capital

Paper consumption: Nations Trust's thrust towards digitalizing its back end and front end processes have led to consistent reductions in its paper consumption. Key initiatives include the following:

- Marketing and customer care printed material fully replaced with e-leaflets accessed through a QR code
- E-box initiative which provides digital access to customers to access comprehensive information on their accounts and transactions
- Digitalisation of the onboarding process through Nations Alpha
- Paper recycling efforts
- Discontinued the printing of mandates

27 MT
Paper consumption in 2021
(44% y-o-y decline)

Water Consumption: The Group's water consumption is limited to general purpose use by employees and is fulfilled solely by the water supply from municipality lines. Water discharged is released to municipality sewerage lines. During the year, the Group consumed 33.72 million litres of water.

Reducing plastic consumption

During the year, the Bank conducted a No Plastic campaign in July consisting of a range of employee engagement and public education activities. This included, deployment of eco-friendly pens at customer writing tables in the branches, internal and public webinars, awareness programs on plastic hazards and encouraging employees to share their initiatives through the Make it Happen FB Group.

Waste management

We strive to ensure minimal waste by encouraging the 3R culture of reducing, reusing and recycling waste by creating awareness and having in place systems and processes to support this culture. The main types of waste generated from our operations are e-waste, food waste and paper waste. Food waste is measured at main offices and employees are made aware of wastage via notices. E-waste is segregated and disposed responsibly through approved third party recyclers. Wastepaper is recycled at our main office locations. During the year, 8,135 Kg paper was recycled.

Biodiversity Preservation

Awareness programs: Through our long-term partnership with environmental interest groups such as Wildlife Conservation Society of Galle, Wildlife and Nature Protection Society (WNPS) and Biodiversity Sri Lanka Platform (among others) the Bank has strived to create awareness on biodiversity conservation. During the year, the Bank sponsored 11 webinars, widening the audience through providing an opportunity for customers and employees to attend these sessions. Our sponsorship on the WNPS publications (Loris,Warana/Varanam) was extended to 'The Jungle Telegraph', while we also partnered with WNPS to carry out the "Ethical Wildlife Photography" public awareness campaign.

Conservation of Hiyare Sanctuary: 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. During the year, we strengthened the monitoring of this operation to ensure optimisation of the investment.

Mihikathata Avurudu: In line with the Bank's Avurudu Ganu denu (Traditional New year transactions) project in April, we committed to reforesting a degraded land of 1 acre in the Hiyare sanctuary.

Green Lending Decisions

Corporate and SME facilities above LKR 25 million and IFC funded facilities undergo a rigorous environmental and social risk assessment based on the Bank's comprehensive ESMS policy. The policy includes an assessment on the level of regulatory compliance, specific questions on environmental and social issues, detailed research by the credit appraisal staff and environmental and social investigations by experts. The findings of E&S assessments are referred to respective approval/review authority, including independent large credit evaluation by the Credit Risk Management function and ultimately the Board Credit Committee.

1. E&S screening
2. E&S risk evaluation and reporting
3. E&S approval and control
4. E&S risk monitoring
5. E&S monitoring and client reporting

Sustainable Banking Initiative

As a signatory to the Sustainable Banking Initiative of the Sri Lanka Banks' Association, we also work closely with industry stakeholders to promote sustainable economic growth through the wider adoption of sustainable finance standards. During the year, our employees participated in several training programmes on sustainable finance themed on Sustainable Banking, Bank's Environmental and Social Footprint and Green Economy in Sri Lanka among others.

No Plastic Campaign

Independent Assurance Report

Ernst & Young
Chartered Accountants
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ey.com

Independent Assurance Report to the Board of Directors of (Nations Trust Bank PLC) on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2021

Scope

We have been engaged by the management of (Nations Trust Bank PLC) ("the Bank") to perform an independent assurance engagement, as defined by the Sri Lankan Standard on Assurance Engagements, on the sustainability reporting criteria presented in the Integrated Annual Report for the year ended 31 December 2021 (the "Report").

- Limited assurance on the information presented in the Report, prepared in accordance with the GRI Standards: Core option.

Criteria applied by Nations Trust Bank PLC

The sustainability reporting criteria presented in the Report has been prepared in accordance with The Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, publicly available at GRI's global website www.globalreporting.org.

This Report has been prepared in accordance with the GRI Standards: Core option (the "criteria").

Nations Trust Bank PLC's responsibilities

Nations Trust Bank PLC's management is responsible for selecting the criteria, and for presenting the Report in accordance with the said criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to support the sustainability reporting process of the Report, such that it is free from material misstatement, whether due to fraud or error.

Ernst & Young's responsibilities

Our responsibility is to express a conclusion on the presentation of the Report in accordance with the GRI Standards: Core option based on the evidence we have obtained.

We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka and the terms of reference for this engagement as agreed with Nations Trust Bank PLC in the engagement letter dated 3 January 2022.

The standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Report in order for it to be in accordance with the criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our independent assurance conclusion.

Our Independence and Quality Control

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka and have the required competencies and experience to conduct this assurance engagement.

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

Description of procedures performed

We performed our procedures to provide an independent assurance engagement in accordance with SLSAE 3000.

Procedures performed in the reasonable assurance engagement depend on our judgement, including the assessment of the risks of material misstatement whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the reasonable assurance Indicators in order to design the assurance procedures that are appropriate in the circumstances. Our procedures also included assessing

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Independent Assurance Report

the appropriateness of the reasonable assurance indicators, the suitability of the criteria in preparing and presenting the reasonable assurance indicators within the Report and obtaining an understanding of the compilation of the financial information to the sources from which it was obtained.

Procedures performed in the limited assurance engagement consisted of making inquiries, primarily of persons responsible for preparing the Report and related information and applying analytical and other appropriate procedures. These procedures vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

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

We also performed the below procedures as we considered necessary in the circumstances:

- Perform a comparison of the content of the Report against the Global Reporting Initiative (GRI) - GRI Standards guideline.
- Interviewing relevant organization's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Review and validation of the information contained in the Report.
- Check the calculations performed by the organization on a sample basis through recalculation.
- Advice, make recommendations and suggestions on the Sustainability Reporting indicators to improve the presentation standard.
- Independently review the content of the Report and request changes if required.
- Express an independent assurance conclusion on the performance indicators presented in the Sustainability Reporting criteria.

Emphasis of matter

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

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

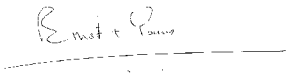
Restricted use

This report is intended solely for the information and use of Nations Trust Bank PLC and is not intended to be and should not be used by anyone other than the specified party.

Conclusion

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

- Nothing has come to our attention that causes us to believe that the information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from the GRI Standards: Core option.



23rd February 2022
Colombo

Corporate Governance

Highlights 2021

- Appointment of a new Non-Executive Director to the Board
- New Board Sub Committee formed Board Information Technology Advisory Committee (BITAC)
- Review and updated key policies

Areas of Board focus in 2021

- ☑ Assessing implications of macro economic conditions on performance and risk profile
- ☑ Ensuring employee safety and well being amidst pandemic conditions
- ☑ The Group's digitalisation strategy
- ☑ Integrating sustainability
- ☑ Strengthening risk management systems and frameworks

Approach to Corporate Governance

Nations Trust Bank's corporate governance frameworks have been designed to safeguard stakeholder value by embedding integrity, transparency and accountability across all spheres of the organisation. In addition to compliance with mandatory requirements, the Group's policies, procedures and structures adhere to the requirements of several voluntary standards on corporate governance and industry best practices as presented below:

Mandatory external instruments	Internal instruments	Voluntary standards	Internal mechanisms
• 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	• Articles of Association • Board and Sub-Committees' Terms of Reference • Code of Ethics • Code of Conduct • Board approved policy framework	• 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	• Strategic planning • Stakeholder engagement • Budgeting and Finance • Risk Management • People Management • IT Governance

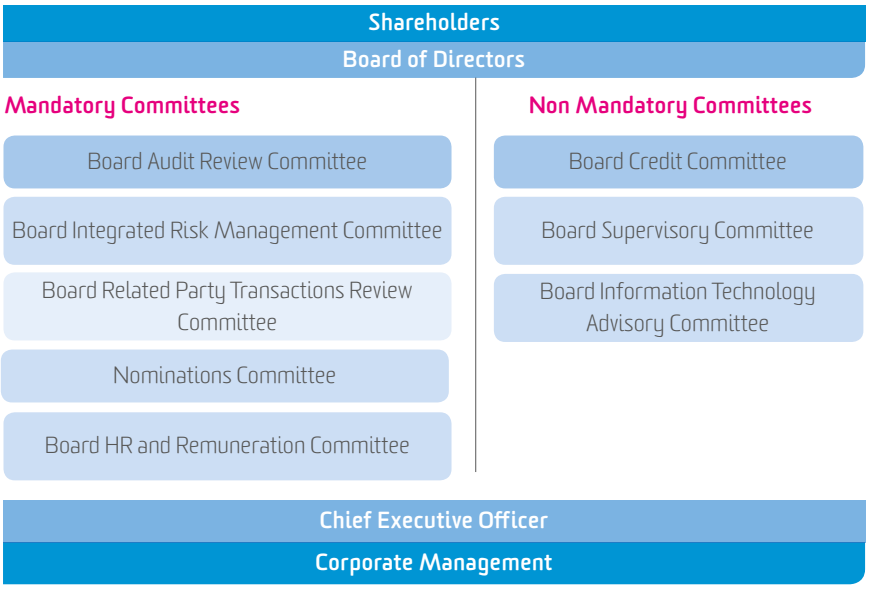
Corporate Governance

Governance Structure

The Board of Directors serve as the custodian of corporate governance and is the apex governing body of the Bank. The Board has appointed eight 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). The Committee reports on pages 80 to 92 provide insights into their activities during the year.

In line with the Bank's strategic thrust towards digitalisation, Nations Trust established the Board Information Technology Advisory sub committee during the year, with the aim of providing oversight on the implementation of the digitalisation strategy.

In addition to the Board sub committees The Executive Committees appointed for specific roles ensure that the management sets the tone for good governance facilitating empowerment and joint decision making.



Policy Framework

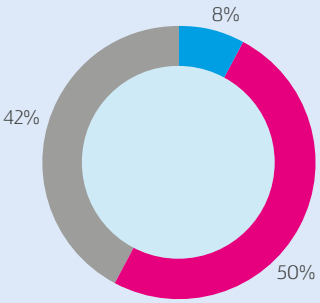
The Bank's policy framework covers all key aspects of the Bank's operations and provides a solid foundation to ensure consistent, ethical and transparent business practices. The policies are reviewed and revised regularly to ensure compliance to regulatory developments, internal focus areas and other external dynamics. The following policies were revised during the year,

- Procurement policy: revised to strengthen the evaluation of suppliers
- Disclosure Policy
- Liquidity Risk Management Policy
- Credit Risk Rating Policy
- Loan Review Mechanism Policy
- Human Resources Policy
- Wistleblowing Policy
- Policy on Related Party Transactions
- Business Continuity PLanning Policy
- Repo & Reverse Repo Policy
- ISMS Cyber Security, Acceptable User Policies
- Disclosure Policy
- Investment Policy
- Liquidity and Risk Management Policy

Effective Board

Nations Trust's Board comprises of 12 Directors with diverse set of skills, industry insights and experience as set out below. 11 out of 12 Directors are engaged in a non-executive capacity of whom 5 are independent. The Board's skill profile is also aligned to the Bank's strategic aspirations, with IT, Finance and Banking skills on the Board enhanced in recent years. This has enabled more proactive identification of risks and opportunities and facilitated a deeper understanding of how core competencies can be leveraged to drive value creation. With the appointment of a new Non-Executive Director to the Board in January 2022, the Board's Financial Management, Credit and Leasing skills have been enhanced.

Board composition



- Executive Director
- Non Independent/Non-Executive
- Independent/Non-Executive

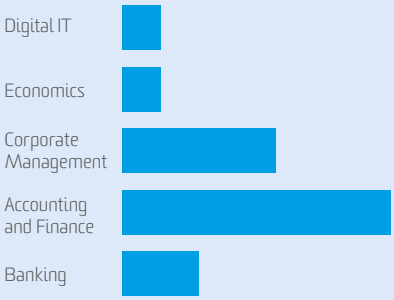
Business focus
Banking and Corporate Management experience

Customer centricity
Multi-disciplined banking experience

Operational excellence
Finance, Accounting and Auditing

Digitalisation
IT and Digital Strategy

Composition of skills



Gender balance

10 males

2 females

Tenure of Non Executives

<3 years	3-6 years	6-9 years
2	7	2

Age representation

35-45 years	45-55 years	Over 55 years
2	6	4

Board appointments in 2021

- Mr. Chandika Kushan Hettiarachchi
  Non Executive Director

Retirements in 2021

- Mr. Suran Wijesinghe
  Non Executive Director

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. 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.

Director assessment: The Board evaluates its performance on an annual basis, as is prescribed by the Code of Best Practice and 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 required to carry out a self assessment on his/her role as a member of the Committee.

Board meetings

Board activities continued uninterrupted despite the prevalent conditions, with board meetings and sub committee meetings shifting to digital platforms. The Board convened 13 times during the year and the attendance at meetings is set out in the table below:

Corporate Governance

	DIRECTOR	BOARD	BARC	BSC	HRRC	BCC	BIRMC	NC	RPTRC	BITAC
01	Mr. Gihan Cooray (Chairman)	13/13			01/01	12/12		02/02		
02	Mr. Conrad D'Souza*	13/13			01/01		01/01	02/02		
03	Ms. Rachini Rajapaksa	13/13	10/10		01/01		08/08			12/12
04	Mr. Russell De Mel	13/13			01/01	12/12			04/04	
05	Mr. Sumit Maheshwari	13/13								11/12
06	Mr. Savanth Sebastian	12/13	10/10	13/13						
07	Ms. Sherin Cader	13/13	10/10	13/13			08/08			
08	Mr. Chanaka Wickramasuriya	13/13				12/12		02/02	04/04	
09	Mr. Arjun Fernando**	13/13		13/13		12/12		02/02		07/07
10	Dr. Ramesh Shanmuganathan	13/13								12/12
11	Mr. Priyantha Talwatte	13/13					08/08		04/04	12/12
12	Mr. Suran Wijesinghe***	10/10	07/08	10/10			07/07			

* Appointed as the Chairman of BIRMC with effect from 01st November 2021
** Appointed as a member of BITAC with effect from 29th June 2021
*** Retired from the Board of the Bank with effect from 31st October 2021

Governance Outcomes in 2021

Driving strategy and performance

Board oversight on strategy and performance includes evaluating trends in the operating environment that could affect the delivery of the Group's strategy, consistently monitoring performance and engaging with the executive management team, enabling a deeper understanding of the business. Key areas of focus during the year included,

- ☑ Assessment of the implications of COVID-19 on employee safety, business continuity, risk profile and overall financial performance
- ☑ Regulatory developments and implications on the Group's performance and risk profile
- ☑ Proactive monitoring of macro economic conditions and potential impacts on the Group's strategy, performance and risk profile
- ☑ Succession planning of the Key Management Personnel
- ☑ The Group's digitalisation strategy and its implications on the external and internal customer

Shaping organisational culture

The Board of Directors play a vital role in setting the right tone at the top, collectively driving towards achieving organisational conduct that is aligned to the Group's corporate values. The Bank's organisational culture is centered on its corporate values of Agility, Proactive, Excellence, Winning together and Trust which has provided a solid platform in articulating the behaviour expected from employees. The following contribute towards shaping a values driven culture tools which contribute towards shaping a values driven culture:

The Board's action towards shaping the Group's organisation culture included the following initiatives:

- ☑ Regular updates on employee initiatives, including engagement, physical and mental well-being and satisfaction
- ☑ Review and update of several employee related policies
- ☑ Increased focus on sustainability aspects

Code of Conduct	Code of Ethics
Anti bribery and Corruption policy	Whistle blowing policy
Related Party Transactions policy	Employee grievance policy

Effective Risk Management

The Board of Directors hold apex responsibility for ensuring the effectiveness of the Bank's risk management frameworks and internal control systems. The Board is supported by a dedicated Integrated Risk Management Committee (BIRMC) and Board Audit Review Committee in the discharge of its risk management responsibilities. (Please refer to the Committee Reports on page 80 and 92 for an overview of the functions performed by the Committees during the year).

Risk Management focus in 2021

Given the external complexities that prevailed during the year, the Bank further strengthened its risk management frameworks, placing priority on de risking its portfolio through curtailing exposure to relatively high risk segments, proactively monitoring liquidity positions and FCY net open positions and strengthening operational risk management. Ongoing focus is also placed on mitigating IT and cyber security risks, given the Group's increased reliance on digital platforms.

Cybersecurity risks are managed through effective governance structures, clearly articulated procedures and security frameworks and reported 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.

Stakeholder Relationships and Sustainability

The Group's social license to operate is dependent on the relationships it has nurtured with its diverse stakeholders. As detailed on page 20, we maintain proactive engagement with stakeholders, ensuring that their concerns are proactively identified and addressed through strategic initiatives. Interaction with stakeholders is governed through Grievance policies, Communication policy.

Shareholder engagement

- ☑ Annual General Meeting
- ☑ Annual Report
- ☑ Investor Relations
- ☑ Direct access to Company Secretary
- ☑ Dissemination of timely and accurate information

Sustainability

The Group has sought to embed social and environmental consciousness into its strategy, business decisions, operations and processes. The Board holds overall responsibility for formulating the Group's approach sustainability based on the economic, social and environmental areas It can make the most significant contribution to. (Refer to page 33 for further information)

The Group's commitment towards sustainability is clearly articulated in its Vision, thereby embedding sustainability considerations to the Group's organisational culture and day to day decision making.

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, 2021. 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 23 February, 2022.

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 - 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 Allied Properties Limited and Nations Insurance Brokers Limited during the period under review. Waldock Mackenzie Limited ceased margin trading operations.

Financial Statements

Financial Statements of the Bank and the Group are given on pages 98 to 189 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 2021 and their Report on the Financial Statements is given on Page 94 of this Annual Report.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 103 to 122 .

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 62 to 63 of this Report.

An entry in respect of approving remuneration to the Executive Director by the Board on 31st March 2021 was made in the Interest Register during the year under review.

Directors' Shareholding

Directors' shareholding as at 31st December, 2021 and 2020 are given below.

Name of the Director	No. of Shares	
	2021	2020
Mr. Gihan Cooray	8,804(V) 1,532(NV)	8,804(V) 1,532(NV)
Mr. Suran Wijesinghe (Retired w. e. f 1st November 2021)	N/A	41,562(V) 7,242(NV)
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	-	-
Mr. Priyantha Talwatte	-	-

Directors' Remuneration

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

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
Non Executive Directors			
Mr. Gihan Cooray	13	13	Nil
Mr. Suran Wijesinghe	10	10	Nil
Mr. Sumit Maheshwari	13	13	Nil
Ms. Sherin Cader	13	13	Nil
Mr Arjun Fernando	13	13	Nil
Independent Non Executive Directors			
Mr. Conrad D'Souza-Senior Director	13	13	Nil
Ms. Rachini Rajapaksa	13	13	Nil
Mr. Russell De Mel	13	13	Nil
Mr. Savanth Sebastian	13	12	1
Mr. Chanaka Wickramasuriya	13	13	Nil
Executive Director			
Mr. Priyantha Talwatte	13	13	Nil

Dr. Ramesh Shanmuganathan was appointed to the Board as a Non Executive Director with effect from 25th January 2021 and elected 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 held on 31st March 2021. Mr Chandika Kushan Hettiarachchi was appointed to the Board as a Non Executive Director with effect from 5th January 2022 and he is recommended for election by the shareholders.

Non Executive Director Ms Sherin Cader and Independent Non Executive Director Mr. Savanth Sebastian 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. Non Executive Director Mr. Sumit Maheshwari, who also retires by rotation, has indicated that he does not wish to be re-elected.

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.

	Bank LKR '000	Group LKR '000
Audit Fees	9,142	10,139
Fees for Other Services	2,604	2,604

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 authorize the Directors to fix their remuneration.

Financial Results and Dividend

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 99 Statement of Financial Position of the Bank and the Group are given on page 98.

Having satisfied the solvency test requirement under the Companies Act No.7 of 2007, the Directors have declared a first and final scrip dividend of LKR 3.50 per share to holders of both Ordinary Voting shares and Ordinary Non Voting Convertible shares to be satisfied by the issue and allotment of new shares of similar description. The Scrip dividend is subject to the approval of the Colombo Stock Exchange.

Information on Shares and Debentures

Information relating to holdings of shares and debentures is given in pages 197 to 200 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 189.

Capital Adequacy

The Group's capital adequacy ratios as at 31 December 2021 were 14.77% for Tier I and 17.46% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka.

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;

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

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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Items in the Statement of Financial Position												
Assets												
Accommodation												
Loans and Advances	-	-	462	2,448	52,396	66,117	3,255	3,007	-	-	2,758,202	232,805
Credit Cards	-	-	1,479	2,978	14,699	8,435	724	1,614	824	979	-	-
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	-	-	728
Other Assets	-		-	-	-	-	-	-	-	-	38,693	3,290
Letter of Credit / Guarantees	-	-	-	-	-	-	-	-	30,894	137,765	4,053,792	784,509
Undrawn Facilities	-	-	7,296	6,347	31,254	29,228	2,059	1,165	1,985,621	1,878,500	3,588,444	996,571
Total Accommodation	-		9,237	11,773	98,350	103,780	6,038	5,786	2,017,339	2,017,244	10,439,130	2,017,176
Less: Cash Collaterals against Total Accommodations	-	-	3,556	2,500	47,369	32,559	1,258	2,222	-	-	-	-
Total Net Accommodation	-		5,681	9,273	50,981	71,221	4,780	3,564	2,017,339	2,017,244	10,439,130	2,017,176
Total Net Accommodation % of Total Regulatory Capital	-	-	0.01%	0.02%	0.12%	0.18%	0.01%	0.01%	4.77%	5.08%	24.68%	5.08%
Liabilities												
Due to Customers	3,643	9,756	231,744	172,356	161,723	137,982	19,736	17,498	3,012,040	24,425	1,814,103	458,270
Repurchase and Other Borrowings	1,470,536	1,170,149	-	-	17,064	9,005	-	-	1,400,000	895,328	319,387	374,504
Debenture Issued	-	-	-	-	-	-	-	-	-	-	1,176,700	1,178,235
Other Liabilities	-	-		58	-	-	-	492	1,351	2,804	713,695	27,609
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	-	-	3,593
Equity												
Dividends (Net)	-	-	21	136	64	72	-	-	391,438	450,154	-	-
Commitments:												
Forward - Foreign Exchange Contracts	-	-	-	-	-	-	-	-	-	-	-	300,960
Items in Statement of Profit or Loss												
Interest Income Earned	-	-	211	342	4,619	4,934	381	694	27,071	11,733	254,137	23,186
Interest Expenses Paid	63,188	63,446	9,818	8,275	9,100	8,765	822	2,953	52,706	230,988	160,665	44,432
Fees and Other Income Earned	7,654	8,074	268	389	862	693	107	156	2,352	2,471	312,917	28,197
Expenses Paid	102,664	101,656	-	-	-	-	-	-	18,580	19,772	115,890	52,084
Compensation paid :												
Short Term Employee Benefits	-	-	77,311	74,852	259,138	265,445	-	-	-	-	-	-
Post Employment Benefits	-	-	6,683	9,347	26,136	31,247	-	-	-	-	-	-

* 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.

No new shares of the bank were acquired by the above related parties during the year 2021 (2020 - Nil).

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 19 of 2021, 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 arm's 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

Ms Sherin Cadre - Chairperson
Mr Priyantha Talwatte
Mr Chandika Hettiarachchi

Nations Insurance Brokers Limited

Ms. Rachini Rajapaksa- Chairperson
Mr. Priyantha Talwatte

Allied Properties Limited

Mr Chandika Hettiarachchi - Chairman
Ms Sherin Cadre
Mr Priyantha Talwatte

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 on Wednesday, 30th March 2022 at 10.00 a.m. by virtual means.

For and on behalf of the Board

Gihan Cooray
Chairman

Priyantha Talwatte
Director/Chief Executive Officer

Theja Silva
General Counsel/ Company Secretary

23rd February 2022
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 the transactions carried out with Director related entities during the year 2021.

Name of the related party	Name of Director	Relationship	Details
Allied Properties Limited	Ms. Sherin Cader	Director	A sum of LKR 31,996,287.11 was paid as Interest Expense
	Mr. Priyantha Talwatte	Director	A sum of LKR 102,663,720 was paid as Rent Expenses
Asian Hotels & Properties PLC	Mr. Gihan Cooray	Director	A sum of LKR 2,651,899.00 was paid as Interest Expense
			A sum of LKR 3,200.00 was received as Other Income
			A sum of LKR 984,871.44 was paid as Other Expenses
Central Finance Company PLC	Mr. Arjun Rishya Fernando	Director	A sum of LKR 27,064,665.00 was received as Interest Income
			A sum of LKR 1,747,575.00 was received as Other Income
			A sum of LKR 18,580,482.00 was paid as Other Expenses
			A sum of LKR 64,493,396.00 as Dividend
Ceylon Cold Stores PLC	Mr. Gihan Cooray	Director	A sum of LKR 1,708,570.00 was paid as Interest Expense
			A sum of LKR 187,156.00 was received as Other Income
			A sum of LKR 3,753,913.00 was received as Interest Income
Jaykay Marketing Services (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 93,258,680.00 was received as Interest Income
			A sum of LKR 179,520.00 was paid as Interest Expense
			A sum of LKR 27,350.00 was received as Other Income
			A sum of LKR 9,734,904.39 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 41,174,747.00 was paid as Interest Expense
			A sum of LKR 2,800.00 was received as Other Income
			A sum of LKR 128,695,732.00 as Dividend
John Keells Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 291,527.00 was received as Interest Income
			A sum of LKR 3,875.00 was received as Other Income
John Keells Information Technologies (Pvt) Ltd	Mr. Gihan Cooray	Director	A sum of LKR 8,126,048.09 was paid as Other Expenses
	Dr. Ramesh Shanmuganathan	Director	
John Keells PLC	Mr. Gihan Cooray	Director	A sum of LKR 721,630.00 was paid as Interest Expense
			A sum of LKR 10,075.00 was received as Other Income
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 2,775.00 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 172,091.00 was received as Interest Income
			A sum of LKR 1,048,493.00 was paid as Interest Expense
			A sum of LKR 78,625.00 was received as Other Income

Name of the related party	Name of Director	Relationship	Details
Trans Asia Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 572,317.16 was paid as Other Expenses
			A sum of LKR 14,500.00 was received as Other Income
			A sum of LKR 6,130,942.00 was received as Interest Income
Waldock Mackenzie Limited	Ms. Sherin Cader	Director	A sum of LKR 5,959,946.28 was paid as Interest Expense
	Mr. Priyantha Talwatte	Director	A sum of LKR 109,880.16 was received as Other Income

Details of accommodation granted and balances outstanding as at 31 December 2021

Name of the related party	Name of Director	Relationship	Accommodation Granted	Limit - LKR	Amount outstanding as at 31 December 2021
Central Finance Company PLC	Mr. Arjun Rishya Fernando	Director	Working Capital Financing (Bank Guarantee - Off balance sheet)	1,969,106,118	823,807
John Keells Hotels PLC	Mr. Gihan Cooray	Director	Working Capital Financing	4,270,778	2,275,778
Jaykay Marketing Services (Private) Limited	Mr. Gihan Cooray	Director	Working Capital Financing	1,494,425,436	1,005,574,564

Risk Management Review

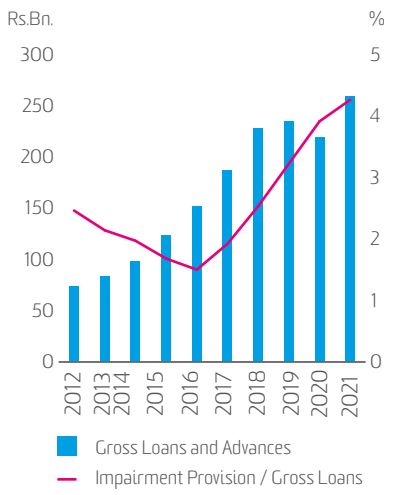
As the shift to a new normal took roots world over, despite macro challenges Nations Trust Bank continued in its quest towards sustainable value creation reinforced by a robust risk management framework during the year 2021.

The challenging economic environment resulting from the disruptions due to pandemic, rising inflation, pressure on the exchange rate and interest rates amidst foreign currency shortage are some of the key factors contributing to the uncertainty and volatility. Policy environment has continued to be volatile due to the necessity to balance priorities in an emerging economy.

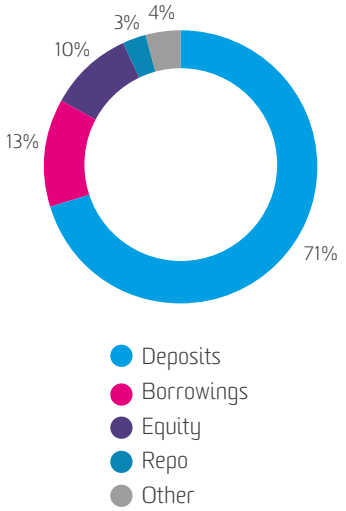
The macro trends exert pressure on credit quality while sovereign rating downgrades and decreased foreign inflows due to the pandemic has impacted on the bank's operations.

In response to change in complexity of risk, emergence of new risks and business environment dynamics, bank has heightened the oversight and strength of its Integrated Risk management framework, ensuring resilience 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.

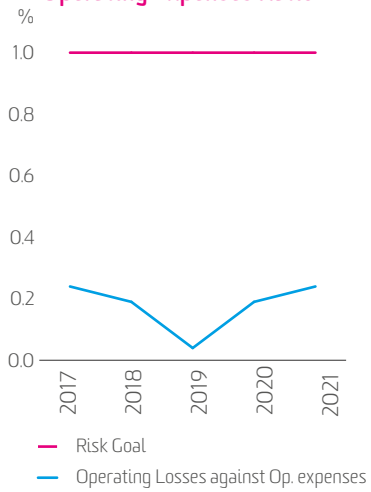
Loan Book and Impairment



Funding Composition



Operational Losses to Operating Expenses Ratio



(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 core business process 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;

Risks arising from the Bank's operations and processes

Activity	Risk exposure
Lend	Credit risk
Fund	Funding and liquidity risk
Trade	Market risk
Key operations and processes	Operational risk (IT, people related risk, legal risk)
Compete	Strategic risk
Regulated industry	Compliance risk

Risks monitored by the Bank for impact

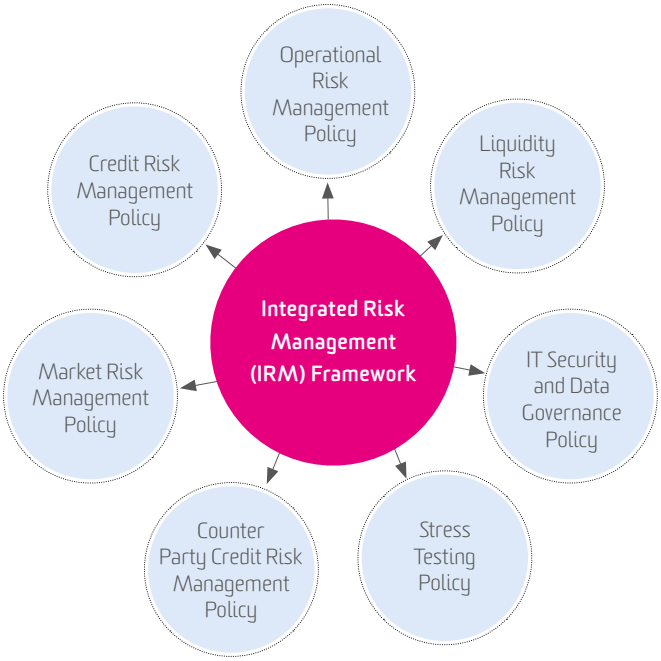
- Geopolitical risk
- Macro economic risk
- Legal risk

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 to 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 judgement and judicious empowerment. A comprehensive framework of policies ensures the consistency and clarity in the 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 the 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

Risk Management Review

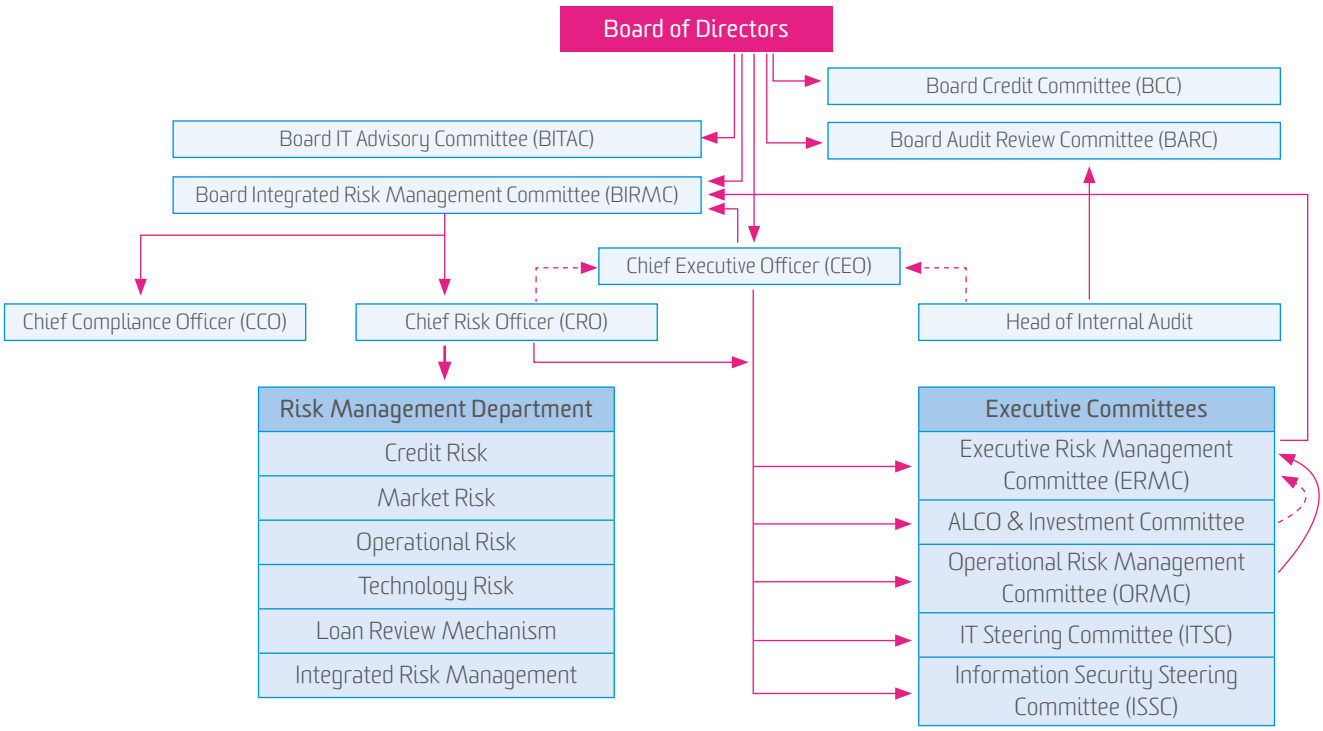
- Establish the appropriate risk tolerances given our business objectives, profit and growth opportunities, and regulatory requirements
- Integrate our risk appetite into strategic and tactical decision making in order to optimize our risk profile
- Establish an IRM feedback loop and provide effective 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.

	Position as at End 2021	Limit/Range for 2021	Limit/Range for 2020
Credit Risk			
Impairment Ratio	4.26%	3.50% to 4.50%	2.50% to 3.50%
Impairment cover for NPL	83.00%	Above 45%	Above 45%
NPL Ratio net of IIS	4.95%	1H-Less than 6.50% 2H- Less than 5.50%	6.00%
Market Risk			
Sensitivity of the Trading portfolio against interest rate fluctuations	0.16%	Below 2% of PBT	Below 2% of PBT
Operational Risk			
Operational Losses to Operating Expenses Ratio	0.24%	<1%	<1%

(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 and 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.

Board Information Technology Advisory Committee (BITAC)

Board Information Technology Advisory Committee (BITAC) comprises three directors, including an independent director. BITAC reviews and appraise technology related recommendations to the Board of directors; including determining and agreeing on recommended funding priorities within the pre-approved budgets, technological feasibility, suitability, technology risk appetite and acceptance.

BITAC provides oversight on ITSC and ISSC reviews, decisions in relation to technology risk associated with strategic technology projects, Information Security risk assessments and risk mitigation plans.

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 Liability 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 (Information Security Steering Committee), as the apex management level body of information security management provides strategic directions and is exclusively responsible for establishing and maintaining the Information Security Management System (ISMS) of the bank while adhering to CBSL Baseline Security Standards and Technology Resilience directions. The ISSC is chaired by Chief Executive Officer (CEO) and coordinated by VP – Information Security. Risk assessment outcomes, risk remediation plans and strategies are deliberated at ISSC.

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), SVP Operations and Service Delivery, 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 ERMC 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.

Risk Management Review

First line of defense

Functions that own and manage risk

The identification, management and reporting of risks at business unit level, ensuring that specific risks are managed at the source as effectively as possible

Second line of defense

Functions that oversee risk

Centralized oversight of the first line of defense by the risk management, compliance, finance and other support functions.

Third line of defense

Functions that provide independent assurance

Provides independent and objective assurance on the risk exposures, processes and practices in place. Comprises of Internal and External Audit Functions

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 organization wide risk culture through development of a common risk language and Bank-wide risk training and support	Review portfolio quality and 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 and guidelines in day to day activities. Ongoing communication through news 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, Stage 3 Ratio, 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)/Risk control matrices (RCM)/Heat maps/Scenario Analysis/Stress testing/Key Risk Indicators/Risk & Control reviews
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, Compliance Reviews, Security Incident and Event Management (SIEM) 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 /Stage 3 ratio, Specific Provision Cover, Impairment Ratio, stress testing
		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 Management Review

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	Performance on investment in foreign currency securities and corporate debt securities
		Investments Report	
		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
		Quarterly 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, Security Incidents and Events Monitoring, ISMS Compliance Monitoring 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 Shifts in NPL categories
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

Potential impact on,

- Earnings
- Capital Adequacy
- Funding Capability/ Liquidity

(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 has 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 a 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 and commercial 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.

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

Pre-credit sanctioning

- Multiple levels of approval authority
- Sophisticated risk rating and scoring System
- Prudential limits for concentration risk
- Structured and comprehensive credit Appraisal and defined credit criteria

Post-credit monitoring

- Portfolio evaluation with emphasis on Early warning signals
- Robust credit review mechanism
- Stress testing and scenario analysis
- Review of selected exposures

Post-credit monitoring

- Portfolio management
- Regular monitoring of concentration Risk and other prudential limits
- Structured loan review mechanism
- Creation of loan loss reserves through Impairment assessment
- Periodic reporting to HOCC, BCC and BIRMC

Risk Management Review

Areas of focus in 2021

- **Support Economic Recovery within risk appetite level**–Setting up optimum risk appetite levels and guiding the pre-disbursement and post-disbursement credit units to navigate through the waves of pandemic and support the recovery of overall economy.
- **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.
- **Industry Outlook:** Providing insights on the behavioural pattern and outlook for industry segments to better manage the credit risk
- **New Policies, Revision of Policies and procedures :** Central Bank of Sri Lanka issued two new directions (Direction No. 13 and Direction No. 14) in September with the view of further strengthening and harmonizing the regulatory framework on classification, recognition and measurement of credit facilities in licensed banks with the Sri Lanka Accounting Standard, 'SLFRS 9: Financial Instruments'. New directions required changes in overall credit assessment while prompting significant changes in post disbursement monitoring and Expected Credit Loss (ECL) assessment methodologies. The bank revised its Credit Risk Management policy together with ECL Assessment policy to meet the added requirements of the directions.

Credit Risk Performance in 2021

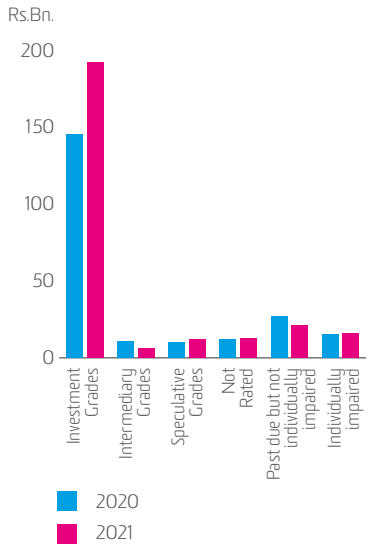
Operating Context:

Evolving nature of the COVID variants during 2021 continued to disrupt the economic value chain, causing CBSL to extend the debt moratoriums along with other relief measures.

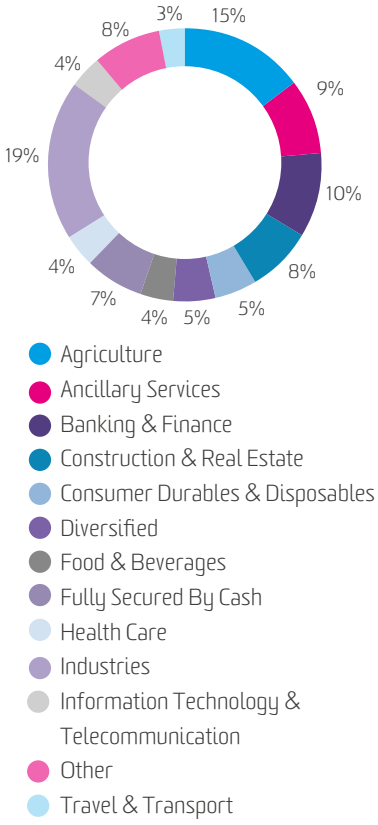
Successful vaccination program, with the administration of the Booster vaccines, supported economic revival from the depressed levels of 2020. Positive sentiments were observed in the travel and tourism sector, which saw a gradual increase in the tourist arrivals and a hike in local tourism during latter part of the year. Export sector has also rebounded well during 2021. However, supply disruption, foreign currency shortages, and inflationary pressure cloud the outlook on economic revival.

Credit underwriting, adherence to the post and pre disbursement covenants, close monitoring and follow up etc. played a major role in improving the asset quality in this volatile economic environment.

Risk ratings distribution



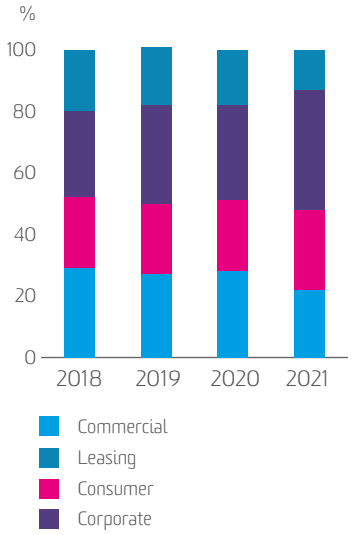
Sectoral distribution of loans 2021



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.

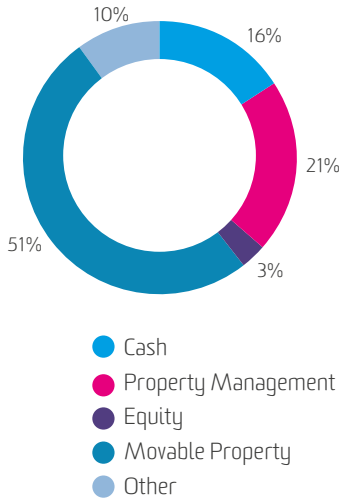
Loan Book Composition 2021



Further details on portfolio status and impairment reserves as at 31.12.2021 are available on Pg 201.

Large exposures 31.12.2021	% of total portfolio (Cumulative)
Top 5	7.15%
Top 10	10.95%
Top 20	16.76%
Other	83.24%

Collateral breakdown 31.12.2021



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, interest rate risk and foreign exchange risk are the key market risks for the Bank.

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 pg 202 for Composition of Trading and non trading books.

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.

Market Risk is managed by Treasury Division, within a robust market risk management framework, market risk limits and through diversification and hedging strategies.

Treasury Middle Office (which operates independently from the Treasury Department) monitors treasury related market risks such as FX/Fixed income security trading limits, 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.

Diverse Risk measurement Tools

Market risk is measured using Value at Risk (VaR), Present value basis point (PVBP), Modified duration, stress testing and sensitivity analysis on open positions, Earning at Risk (EAR), Economic value of Equity (EVE), Maturity gap analysis and Duration gap analysis etc.

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 liquid asset ratios and other market risk related limits. Actual performance against these limits are monitored by the 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 2021

New Policies, Revision of Policies and procedures

Liquidity Risk Management Policy including Contingency Funding Plan and ALM Policy has been reviewed in line with CBSL Direction No. 07 of 2011–Integrated Risk management Framework and market best practices.

Liquidity Stress testing parameters were reviewed accommodating macro economic variables in to the analysis.

Counterparty limits were recalibrated to capture the Covid 19 impact and market risk limits on treasury activities were formulated capturing the change in the risk landscape due to outbreak of Covid 19.

Policy on Repurchase and Reverse Repurchase Transactions was reviewed 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.

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 intra-day 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.

With significant challenges in sourcing dollar liquidity in the market, high levels of volatility were evident. The bank managed dollar liquidity in a satisfactory manner.

Please refer Pg 203 for Net Open Position of Foreign Currency denominated assets and liability of domestic banking unit.

Liquidity Risk

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.

A comprehensive liquidity risk management framework is in place and the Board, BIRMC and ALCO regularly review the soundness of liquidity indicators to ensure they are managed within defined parameters.

Key liquidity ratios were strengthened during the year to cope up with the potential contingencies stemming from Covid 19 outbreak. Bank was able to maintain statutory liquid asset ratio of 34% on average throughout the year against the regulatory minimum requirement of 20%. Bank's Liquidity Coverage Ratio (all currencies) was also maintained well above the regulatory requirement of 100%.

Maturity analysis of assets and liability also indicates a relatively healthy liquidity position. Refer Page 204.

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 Pg 204 for Maturity Gaps in major currencies.

Market Risk Performance in 2021

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 pg 205 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 it's Economic Value (EVE). Earning at risk (EAR) measures impact of changes in interest rates on Net Interest Income (NII).

Interest rate risk is measured based on maturity gap analysis as well as duration gap analysis to determine the suitable strategies to optimize the earnings based on the future interest rate forecasts.

Please refer Pg 205 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.

Due to high volatility observed in the market variables, we have carried out various scenario analyses on Bank's exposures to those market variables. On the other hand, we have studied the historical similar market events in different counties and discussed the lessons learned in order to develop contingency measures. Extra vigilance on market volatilities was maintained.

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 BIRMD provides independent verification on the Bank's operational risk exposures.

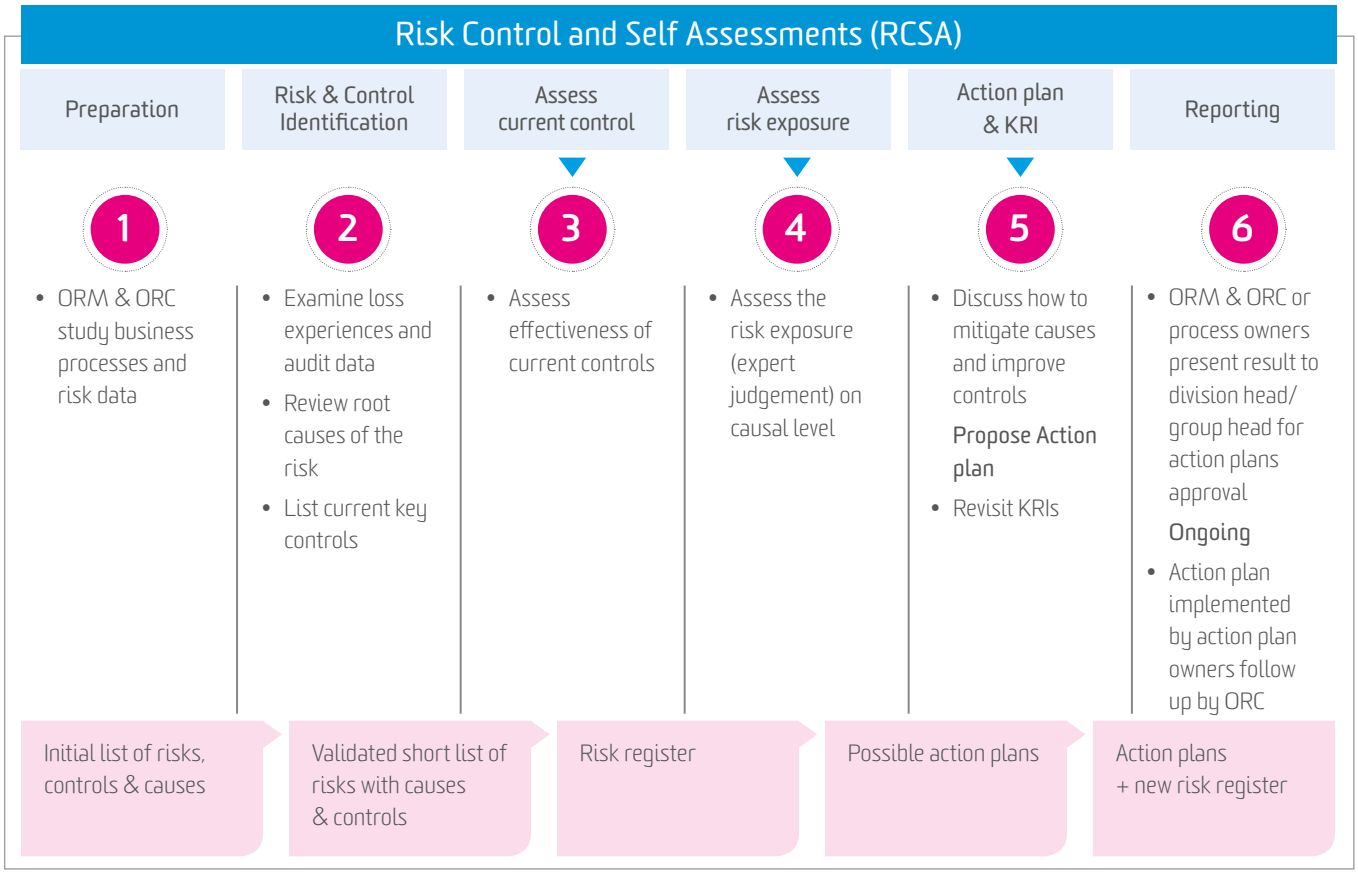
The operational risk management framework is underpinned by the following;

- **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 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 members, Information Security team members, and respective operational units. These activities provide an assurance on the ability of service provider to maintain required levels of service.

- **Challenges during Covid 19**

The outbreak of COVID-19 necessitated invoking of the business continuity plan (BCP) for all mission critical business and operational units. During the pandemic Working from Home was a strategy adopted by almost all the operational areas of the bank. The risks of new work arrangements were carefully reviewed and measures implemented to effectively manage such risks. Moving several

steps ahead, bank enable several digital engagements, process changes, new channels in order to facilitate customer needs while reducing the physical touch points during the lockdowns.

The bank continues to follow effective measures initiated during the early stages of the pandemic to ensure the health and safety of all the stakeholders including our staff, in compliance to the health and safety measures, guided by the health authorities.

Operational Risk Performance in 2021

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 2021.

BASEL II LOSS EVENT TYPE CATEGORY	Nations Trust 2021	
	Value in LKR '000	%
Internal Fraud	580	2%
External Fraud	672	2%
Employment Practices and Workplace Safety	100	0%
Clients Products and Business Practices	4,119	15%
Damage to Physical Assets	-123	0%
Business Disruption and System Failure	8,381	30%
Execution Delivery & Process Management	13,970	51%
Total Operating Losses	27,699	100%

Areas of focus in 2021

- Strengthened the RCSA mechanism & KRI: Strengthened RCSA mechanism with more frequent reviews on elevated risks. These reviews can be triggered by KRIs or based on the observations by the unit heads. 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 at 0.12% in 2021

- Increased employee engagement and awareness on "Operational Risks": Operational risk culture as further emphasized focusing on the "Risk & Compliance coordinator" development programs. Further mandatory e learning program on Operational Risk were carried out to all staff through Nations Faculty as a continuous learning platform on operational risk. 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.

- Increased efficacy and proactiveness of ORMU: Continuous contribution via ORMC and also various regular engagements with business and operational units, to improve the risk culture across all business lines. Conducting risk review/s in business and operational changes to ensure the effectiveness of the key controls of the bank and give visibility on potential risk exposures.

- Fraud Monitoring: With rapid digitalization and due to the continuous improvements in customer non-face to face transactions, bank revisits the adequacy of the fraud monitoring at frequent intervals and during all critical changes of the bank.

- Moving to the Standardized approach on capital calculation methods: Parallel assessment of operational risk capital under the Standardized Approach (TSA).

Technology Risk Management

Information Security (IS) and Governance Function

The bank considers IT Risk including cyber risk as one of the most important risks to be managed. IT risk is posed by internal and external threat actors targeting the bank's technology infrastructure which can have an impact on Bank's ability to service its customers through technology disruptions, frauds and data leakages.

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. The bank is in compliance with ISO 27001:2013 standard and looking forward to embed Zero Trust Architecture by leveraging other international security standards.

Risk Management Review

Due to the evolving nature of risk of cyber-attacks and information security incidents proportionate to the threat landscape and use of new technologies to carryout financial transactions, the information security team makes continuous efforts to strengthen security by implementing layered security controls, performing vulnerability assessments, penetration tests and third-party information security assessments, employee awareness and training programs and security incident management in coordination with IT infrastructure management teams. The role of Information Security team by establishing security standards when implementing Work From Home (WFH) infrastructure to cater to bank's business continuity during the COVID 19 pandemic lockdowns illustrates the responsiveness and agility of bank's information security program.

The bank has a dedicated IT Risk Management function which reports to the Chief Risk Officer. This unit carries out independent technology risk assessments covering all the aspects of technology infrastructure and operations along with related regulatory compliance reviews and overarching governance for compliance to the bank's risk management framework.

Internal audit department conducts information security audits as a part of their audit program to provide assurance over information security resilience.

Areas of Focus in 2021

By leveraging technology advancements, security monitoring has been enhanced. The Bank has initiated setting up 24 x 7 Security Operations Centre (SOC) to augment the Bank's Information Security monitoring capabilities. Further, the bank is in the process of enhancing privilege access management and monitoring capabilities as a part of the security program.

The Bank has launched its Data Governance program with the implementation of Data Governance Framework covering Data Classification and Data Leakage Prevention measures to protect against data breaches. The implementation of Data Leakage Prevention tool is in progress along with reassessment of existing data classifications.

The bank has initiated the implementation of PCI DSS for enhancing payment account data security as an integral part of its information security governance.

Reporting

Report actual risk profiles against the risk appetite and advises on action plans 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 Board Information Technology Advisory Committee and 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 desires to serve and it's 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 - Standardized Approach
- Market risk - Standardized 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.

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 18.01% as at 31.12.2021 (18.37% 31.12.2020).

Market Disclosures based on Basel III is annexed below:

Area	No	Disclosure requirement		Page No
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	2	Basel III Computation of Capital Ratios	Table -2	208
	3	Basel III Computation of Leverage Ratio	Table -3	209
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	6	Main Features of Regulatory Capital Instruments	Table -6	212
Risk Weighted Assets	7	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review	78 - 79
	8	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table -7	214
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Board Integrated Risk Management Committee Report

Composition

The Board members of the Board Integrated Risk Management Committee (BIRMC) are appointed by the Board of Directors.

The Committee's composition during the period ended 31st December 2021 was as follows;

Mr. Conrad D'Souza -Chairman
(Independent Non-Executive Director) [1]

Mr. Suran Wijesinghe
(Former Chairman) [2]

Ms. Rachini Rajapaksa
(Independent Non-Executive Director)

Ms. Sherin Cader
(Non-Executive Director)

Mr. Priyantha Talwatte
(Director/Chief Executive Officer)

Mr. Chamila Sumathiratne
(Secretary of BIRMC) – Chief Risk Officer

Ms. Saaraa Warnakulasooriya
(Chief Compliance Officer)

[1] appointed member / Chairman w.e.f 01st November 2021
[2] retired w.e.f 31st October 2021

The following Key Management Personnel attended meetings of the Board Integrated Risk Management Committee as required under Rule No. 3(6)(v)(a) on Corporate Governance for Licensed Commercial Banks in Sri Lanka.

Mr. Hemantha Gunatilleke
- Deputy Chief Executive Officer

Mr. Ajith Akmeemana
- Chief Financial Officer

Mr. Perry Savundranayagam
- 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

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

Board 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, information technology, compliance 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

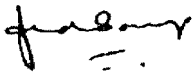
In order to ensure that timely risk mitigation measures are initiated based on the robust risk management structure in place, the BIRMC reviewed and monitored the following during the year:

- 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, Information Security Steering Committee and ALCO
- Monitoring the effectiveness of Management committees overseeing broad areas of risk management
- Review, monitor and report Information Technology risks, ensuring that Management establishes, appraises and addresses technology risks including cyber threats
- Periodically reviewing the Internal Capital Adequacy Assessment Process (ICAAP) and the resultant report
- Approving annual compliance programme and reviewing periodic compliance reports
- Reviewing the Money Laundering and Terrorist Financing risk and making recommendations on the risk mitigation measures.
- Periodically reviewing the Compliance policies and Charter
- Setting objectives and carrying out performance appraisals of Chief Risk Officer & Chief Compliance Officer

The process through which the BIRMC 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 56 of this Annual Report. Minutes of the Meetings were forwarded to the Board. The IRMC also approves a Risk Assessment Report which is 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.



Conrad D'Souza
Chairman
Integrated Risk Management Committee

23rd February 2022

Board Credit Committee Report

Composition

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 2021 was as follows;

Mr. Gihan Cooray
Chairman (Non-Executive Director)

Mr. Arjun Fernando
(Non-Executive Director)

Mr. Russell De Mel
(Independent Non-Executive Director)

Mr. Chanaka Wickramasuriya
(Independent Non-Executive Director)

The Chief Credit Officer functions as the Secretary to the Board Credit Committee. 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.

Terms of Reference

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 continued to be provided on managing the portfolios and credit quality, under volatile market conditions. Salient highlights are appended hereunder;

1. Regular review of the Credit Strategies pertaining to Corporate Banking, Off-Shore Lending, Structured Finance and Commercial Banking (Middle Market Enterprises and SME)
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. The outbreak of the pandemic last year coupled with the macro-economic sentiments that followed necessitated the government and regulators to respond at unprecedented levels with various protective & conservation measures such as the debt moratoriums availed by CBSL, import restrictions, for-ex regulations etc. being stipulated. In response to this, the Board Credit Committee advocated to provide tailor made solutions to the clients of the Bank whilst rendering assistance/direction to support the initiatives set-forth by the regulators and ensure abidance of same.
4. Guidance and monitoring of customer segments adversely impacted under prevailing macro-economic dynamics

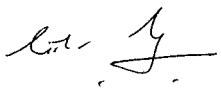
Meetings

The Committee held twelve meetings during the year under review and the Directors' attendance at such meetings is given on Page 56 of this Annual Report. The minutes of the meetings were made available to the Board of Directors on a regular basis.

The Committee also approves credit proposals by circulation.

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

23rd February 2022
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 as at 31st December 2021 was as follows;

Ms Sherin Cader - Chairperson
(Non Executive Director) [1]

Mr Savanth Sebastian
(Independent Non Executive Director)

Mr Arjun Fernando
(Non Executive Director)

[1] Appointed as the Chairperson with effect from 1st November 2021

Mr Suran Wijesinghe (Non Executive Director) who served as the Chairman of the BSC retired from the Board with effect from 31st October 2021

The Company Secretary functions as the Secretary to the Committee.

The BSC meets in advance of the Board meeting and the minutes are submitted to the Board of Directors for information of the Board. 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 BSC held thirteen meetings during the year under review and the Directors' attendance at such meetings is given on Page 56 of this Annual Report.

Terms of Reference

The mandate of the BSC includes the following;

1. Review the performance of the Bank and its business units to ensure that the Management and staff are focused towards achievement of plans 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.
2. Approving expenditure within limits delegated by the Board of Directors.
3. Providing input and guidance to CEO and the Corporate Management on various initiatives including IT systems, products, distribution channels etc prior to being presented to the Board of Directors for approval.
4. Review, provide input and advise 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.
5. 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 and concluded that it has performed its duties and responsibilities satisfactorily in keeping with its terms of reference.

Sherin Cader
Chairperson
Board Supervisory Committee

23rd February 2022
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 2021 was as follows;

Mr Conrad D'Souza – Chairman
(Independent Non Executive Director)

Mr Gihan Cooray
(Non-Executive Director)

Mr Chanaka Wickramasusuriya
(Independent Non Executive Director)

Mr Arjun Fernando
(Non Executive Director)

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 56 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 one Director, one KMP and extension of contracts of four existing KMP and determined that they are fit and proper persons to hold such offices. The process to select, recruit and extend the services of KMP was reviewed and approved by the Committee. Affidavits by continuing Directors were considered by the Committee and recommended them as fit and proper persons to hold Directorships of the Bank.

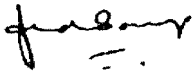
Committee considered the declarations submitted by the Independent Non Executive Directors and recommended that they satisfy the criteria for independence specified in Rule No. 3(2) (iv) of the Banking Act Direction No. 11 of 2007. The Committee also considered and recommended re-election of Mr. Gihan Cooray, Mr. Conrad D' Souza and Mr. Russell De Mel in terms of the provisions containing in the Articles and recommended for re-election at the AGM held in March 2021.

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 and concluded that it has carried out its functions satisfactorily in keeping with its terms of reference.



Conrad D'Souza
Chairman
Board Nomination Committee

23rd February 2022

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 Conrad D'Souza
(Independent Non Executive Director))

Ms Rachini Rajapaksa
(Independent Non Executive Director)

Mr Russell De Mel
(Independent Non Executive Director)

During the year under review one HRRC meeting was held and the Directors' attendance for the meeting is given on Page 56 of this Annual Report. The Chief Executive Officer was present at the meeting 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.

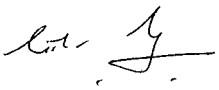
In keeping with the objectives of the TOR, the Committee during 2021, placed emphasis in ensuring that the Compensation & Benefits policies of the Bank are appropriate in attracting and retaining the skills required as well as ensuring succession plans are in place for top management roles in pursuing the short term and long term strategic objectives of the Bank.

In March 2021 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 committee also recommended the revised Board Human Resources & Remuneration Committee Charter and the Consolidated Human Resources Policy for approval of the Board

During 2021, the Committee also evaluated the 2020 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 for the year 2021.



Gihan Cooray
Chairman
Human Resources and Remuneration Committee

23rd February 2022
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 as at 31st December 2021 was as follows;

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

Mr Priyantha Talwatte
(Executive Director)

Mr Chanaka Wickramasuriya
(Independent Non Executive Director)

The 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 56 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:

(a) 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.

(b) Ensuring that a robust framework exists for approving, managing and reporting related party transactions in accordance with applicable rules.

(c) Establish guidelines for the senior management to follow in its ongoing dealings with related parties. Thereafter, the Committee, on an annual basis, reviews and assesses ongoing relationships with related parties to determine whether they are in compliance with the Committee's guidelines and that the related party transactions remains 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. A more comprehensive process for managing related party transactions was approved by the committee during the year.

The Committee carried out a self evaluation of its performance during the year and concluded that it has carried out its functions satisfactorily in keeping with its terms of reference.

Russell De Mel
Chairman
Related Party Transactions Review Committee

23rd February 2022
Colombo

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Banking Act Direction No. 11 of 2007, section 3 (8) (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 88.
- 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 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 travel restriction period imposed from time to time by the Government of Sri Lanka, all operations were carried out strictly in accordance with the guidelines issued by the health authorities. Business continuity arrangements were initiated in order to facilitate essential customer services and provided continued services to customers through our various channels during this period. Some 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 these periods.

Furthermore, Government of Sri Lanka through the Central Bank of Sri Lanka continued to provide various government stimulus and extension of 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 2021 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 88 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

23rd February 2022
Colombo

Auditor's Statement on Internal Control Over Financial Reporting

Ernst & Young
Chartered Accountants
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Colombo 10, Sri Lanka

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Fax (Tax): +94 11 557 8180
Email: eysl@lk.ey.com
ey.com

INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

Report on the Directors' 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 2021.

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 behavior.

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 Charted 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.

23rd February 2022
Colombo

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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 2021 was as follows;

- Ms. Rachini Rajapaksa – Chairperson
- Mr. Suran Wijesinghe[1]
- Mr. Savanth Sebastian
- Ms. Sherin Cader

[1] Ceased to be a member with effect from 31st October 2021

Brief profiles of the BARC members are given on pages 13 to 16 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.

Chief Executive Officer and Corporate / Senior Management members including the Chief Financial Officer and External Auditors attended BARC meetings on invitation.

Meetings

The BARC met on 10 occasions during the year under review and the Directors' attendance at such meetings are given on page 56 of this Annual Report. Due to the pandemic situation and keeping in line with health guidelines all meetings were held virtually.

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.

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

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 ensure 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 fees 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 2021:

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

Board Audit Review Committee Report

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. The Committee also continuously sought insights and visibility on the variables which impacts performance of portfolios, computations to obtain deeper understanding of indicators and trends attributable to portfolio quality and impairment provisions.

During the year an assignment for review, validation and enhancement of the Expected Credit Loss (ECL) Model prior to commissioning an automated solution for impairment computation was awarded to external consultants. Expected deliverables includes assessing the adequacy of data, data structures and reviewing of model assumptions to articulate an improved and refined solution through automation.

As part of an initiative to provide continuous support to audit committees through semi-annual briefing sessions covering insights and updates related to the financial services sector to assist in making better and informed decisions, representatives of external auditors presented emerging topics of the banking industry to the Committee at two occasions covering the areas of emerging trends in credit risk management, implications of foreign exchange rate fluctuations, trends in digital technologies and changes resulting from the Banking Act Direction 13 & 14 of 2021 issued by CBSL.

Internal Audit

The risk and significance based audit plan covering all significant operational areas and mandatory regulatory audits including branches, departments and special reviews for 2021 was approved at the beginning of the year by the BARC. Special consideration was given in the 2021 audit plan to take into account the exceptional circumstances brought about by the pandemic and the volatile business environment. The audit plan centered around four key enterprise level risk themes to assess the control framework and effectively navigate the Bank during the year. The themes covered the risks associated with the volatile business environment impacting credit and impairment assessment in vulnerable portfolio exposures, technology risks arising from digital transformation strategies, unanticipated vulnerabilities associated with a working from home environment impacting on users, devices, data and increased regulatory risks warranting a dynamic internal framework for execution of new regulations and compliance to such regulations.

The Committee periodically reviewed the progress of the Internal Audit plans.

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. 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 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.

New emerging risks brought about by the pandemic and the volatile business environment were recognized early on when formulating the risk based audit plan for year 2021 and audit procedures were aligned to address heightened risks in remote working environment and risks centered around information security. With the physical environment operating with low numbers of staff during multiple lockdown periods, Internal Audit worked closely with 2nd Line and Data Analytics teams to further strengthen remote checks and relied on alternate arrangements to obtain comfort in areas which preclude physical oversight and inquiry.

Regulatory Compliance

Given the frequent issuance of regulations and continuously expanding scope of regulatory compliance, the Internal Audit Department undertook a thematic review assignment on regulatory compliance focusing on the key steps commencing from information dissemination up to reporting to the regulator including assessing of staff awareness and accuracy of data sources.

Additionally, verifications were performed to ensure compliance to applicable regulatory requirements during the 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 ten 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.

(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 18th February 2021 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.

Reappointment of External Auditors

The BARC has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as External Auditors of the Bank for the financial year ending 31st December 2022 subject to the approval of the shareholders at the next Annual General Meeting.

Evaluation of the Board Audit Review Committee

The Committee carried out a self-evaluation of its performance during the year and concluded that it has performed its duties and responsibilities satisfactorily in keeping with its terms of reference.

Rachini Rajapaksa
Chairperson
Board Audit Review Committee

23rd February 2022
Colombo

Our momentum continues...

Recording a powerful performance as we advance into a future of possibilities.

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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 94 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 2021, 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 2021 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. judgements 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.07 of 2007, the Directors have confirmed that the Bank, based on the information available, satisfies the solvency test immediately after the distribution of dividends. In accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a first and final dividend of LKR 3.50 per share to be paid in the form of scrip.

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
General Counsel/ Company Secretary

23rd February 2022

Independent Auditors' Report

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

Tel: +94 11 246 3500
Fax (Gen): +94 11 269 7369
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ey.com

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 2021, statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for credit impairment on financial assets carried at amortised cost and debt instruments carried at fair value through other comprehensive income Provision for credit impairment on financial assets carried at amortised cost and debt instruments carried at fair value through other comprehensive income as stated in Note 11,12 & 13 respectively is determined by management in accordance with the accounting policies described in Note 3.5.	We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including consideration of COVID 19 impacts and related industry responses with its accounting policies, based on the best available information up to the date of our report. Our audit procedures included amongst others the following: • 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. • We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank. We also checked the underlying calculations.

Key audit matter	How our audit addressed the key audit matter
This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex calculations; and • degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following. • management overlays to incorporate the probable ongoing impacts of COVID-19 and related industry responses such as government stimulus packages and debt moratorium relief measures granted by the Bank. • the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgments related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each such scenario.	• In addition to the above, the following procedures were performed: **For loans and advances assessed on an individual basis for impairment:** - We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances. - We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on the ongoing impact of COVID-19. Such evaluations were carried out considering value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values. **For financial assets assessed on a collective basis for impairment:** - We tested the key calculations used in the provision for credit impairment. - We assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology including the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each such scenario. • We assessed the adequacy of the related financial statement disclosures set out in notes 2.9 (iii), 3.5,11,12,13,36 and 47.1 to 47.2.
Information Technology (IT) systems and controls over financial reporting A significant part of the Bank's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting was considered a key audit matter.	Our audit procedures included the following: • We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. • We identified and test checked relevant controls of key IT systems related to the Bank's financial reporting process. • We involved our internal specialized resources to evaluate the design and operating effectiveness of IT controls, including those related to user access and change management. • We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations. • We also obtained an understanding, primarily through inquiry, of the cyber security risks affecting the bank and the actions taken to address these risks. Further, we checked changes if any have been made to security monitoring aprocedures, given the increase use of remote working access including the bank's monitoring on remote working activities.

Independent Auditors' Report

Other information included in the Group's 2021 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 theren.

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.

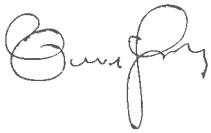
We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and 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.



23 February 2022
Colombo

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), 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, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31 December	Notes	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Assets					
Cash and Cash Equivalents	6	13,427,451	9,144,540	13,427,531	9,144,621
Balances with Central Bank of Sri Lanka	7	6,915,197	2,195,247	6,915,197	2,195,247
Reverse Repurchase Agreements	8.1	3,001,370	5,091,335	3,001,370	5,091,335
Derivative Financial Instruments	9.1	472,864	239,535	472,864	239,535
Financial Assets - Recognised through Profit or Loss	10	6,150,508	2,416,792	6,150,508	2,416,792
Financial Assets at Fair Value through Other Comprehensive Income	11	67,520,760	73,257,835	67,520,760	73,257,835
Financial Assets at Amortised Cost - Debt Instruments	12	26,140,298	26,648,083	26,140,298	26,648,083
Financial Assets at Amortised Cost – Loans and Advances	13	247,441,428	210,185,486	247,441,557	210,185,927
Other Assets	14	2,013,560	2,384,062	2,046,347	2,409,328
Investments in Subsidiaries	15	678,710	678,710	-	-
Property, Plant and Equipment	16	2,330,679	2,672,882	3,298,248	3,681,952
Right of Use (ROU) Assets	17	1,622,825	1,498,382	1,351,245	1,498,382
Deferred Tax Assets	25	751,749	-	610,748	-
Intangible Assets	18	1,174,468	1,221,419	1,175,204	1,222,279
Total Assets		379,641,867	337,634,308	379,551,877	337,991,316
Liabilities					
Due to Banks	19	2,016,105	4,941,573	2,016,105	4,941,573
Derivative Financial Instruments	9.2	165,699	250,700	165,699	250,700
Financial liabilities at Amortised Cost					
Due to Depositors	20	267,991,907	240,584,022	267,988,264	240,574,266
Repurchase Agreements	20	10,899,766	7,562,588	9,429,230	6,392,440
Due to Other Borrowers	20	35,601,356	28,040,126	35,305,349	28,040,126
Debt Securities Issued	21	12,352,873	13,261,973	12,352,873	13,261,973
Retirement Benefit Obligations	22.2	831,793	774,073	841,985	785,249
Current Tax Liabilities	23	2,440,631	1,293,147	2,460,712	1,319,575
Other Liabilities	24	8,802,901	6,244,834	8,832,667	6,272,709
Deferred Tax Liabilities	25	-	863,082	-	1,027,777
Total Liabilities		341,103,031	303,816,118	339,392,884	302,866,388
Equity Attributable to Equity Holders of the Parent					
Stated Capital	26	9,408,135	9,408,135	9,408,135	9,408,135
Statutory Reserve Fund	27	1,882,111	1,561,787	1,882,111	1,561,787
Retained Earnings	28	26,911,909	21,393,697	28,072,893	22,265,430
OCI Reserve	29.1	(503,404)	658,701	(503,404)	658,701
Revaluation Reserve	29.2	840,085	795,870	1,299,257	1,230,875
Total Equity		38,538,836	33,818,190	40,158,992	35,124,928
Total Liabilities and Equity		379,641,867	337,634,308	379,551,877	337,991,316
Contingent Liabilities and Commitments	47	217,357,294	197,230,088	217,357,294	197,230,866
Net Assets Value per Ordinary Share (LKR)	49.2	135.77	119.14	141.48	123.74
Memorandum Information					
Number of Employees		2,648	2,804	2,677	2,832
Number of Branches		96	96	96	96
Number of Offsite ATMs & CRMs		32	43	32	43

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 103 to 189 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
23 February 2022

Statement of Profit or Loss

For the Year Ended 31 December	Notes	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Gross Income		38,141,860	40,398,618	38,378,461	40,666,236
Interest Income	30	28,657,234	32,943,529	28,657,258	32,943,745
Interest Expense	31	(14,678,428)	(19,339,856)	(14,579,618)	(19,271,631)
Net Interest Income		13,978,806	13,603,673	14,077,640	13,672,114
Fee and Commission Income	32.1	6,433,245	5,247,681	6,669,822	5,515,025
Fee and Commission Expense	32.2	(529,462)	(696,943)	(529,463)	(696,943)
Net Fee and Commission Income		5,903,783	4,550,738	6,140,359	4,818,082
Net Gain/(Loss) from Trading	33	2,472,443	1,374,961	2,472,443	1,374,961
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss	34	9,103	(11,591)	9,103	(11,591)
Net Gains/(Losses) on Derecognition of Financial Assets at Fair Value through Other Comprehensive Income		499,932	1,178,117	499,932	1,178,117
Other Operating Income/(Loss) -Net	35	69,903	(334,079)	69,903	(334,021)
Total Operating Income		22,933,970	20,361,819	23,269,380	20,697,662
Impairment Charges	36	(3,742,158)	(3,846,621)	(3,742,158)	(3,846,621)
Net Operating Income		19,191,812	16,515,198	19,527,222	16,851,041
Personnel Expenses	37	(4,587,018)	(4,599,031)	(4,619,680)	(4,632,828)
Depreciation of Property, Plant and Equipment	16	(394,030)	(448,893)	(436,260)	(490,988)
Depreciation of Right of Use (ROU) Assets	17	(483,961)	(502,757)	(393,435)	(412,985)
Amortization of Intangible Assets	18	(338,913)	(379,713)	(339,037)	(379,899)
Other Operating Expenses	38	(3,312,875)	(3,355,120)	(3,333,492)	(3,379,284)
Total Operating Expenses		(9,116,797)	(9,285,514)	(9,121,904)	(9,295,984)
Operating Profit before Taxes and Levies on Financial Services		10,075,015	7,229,684	10,405,318	7,555,057
Taxes and Levies on Financial Services	39	(1,984,686)	(1,495,525)	(1,985,444)	(1,496,239)
Profit before Income Tax		8,090,329	5,734,159	8,419,874	6,058,818
Income Tax Expense	40	(1,683,846)	(1,935,475)	(1,726,345)	(2,003,859)
Profit for the Year		6,406,483	3,798,684	6,693,529	4,054,959
Attributable to:					
Equity Holders of the Parent		6,406,483	3,798,684	6,693,529	4,054,959
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	41	21.25	12.60	22.20	13.45
Dividend Per Share - LKR	42	3.50	2.00	3.50	2.00

The Notes to the Financial Statements from pages 103 to 189 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 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Profit for the Year		6,406,483	3,798,684	6,693,529	4,054,959
Other Comprehensive Income / (Expense)					
Items that will be reclassified to profit or loss in subsequent periods:					
Debt Instruments at Fair Value through Other Comprehensive Income					
Net Change in Fair Value during the year	29.1	(1,621,935)	476,606	(1,621,935)	476,606
Changes in Allowance for Expected Credit Losses	29.1	44,699	18,845	44,699	18,845
Income Tax related to the above	29.1 & 25	378,537	(138,726)	378,537	(138,726)
Deferred Tax Effect due to Revision of Statutory Income Tax Rate	25	36,594	-	36,594	-
Net gains/(losses) on Financial Instruments at Fair Value through Other Comprehensive Income		(1,162,105)	356,725	(1,162,105)	356,725
Total items that will be reclassified to the Statement of Profit or Loss		(1,162,105)	356,725	(1,162,105)	356,725
Items that will not be reclassified to profit or loss in subsequent periods:					
Actuarial gain / (loss) on defined benefit plan	22.2	4,350	(38,441)	7,066	(41,032)
Income Tax related to the above	25	(1,044)	10,764	(1,451)	11,489
Deferred Tax Effect due to Revision of Statutory Income Tax Rate	25	(3,549)	-	(3,653)	-
Net gains / (losses) on actuarial valuation of defined benefit plan		(243)	(27,677)	1,962	(29,543)
Deferred Tax Effect on Revaluation Reserve due to Revision of Statutory Income Tax Rate	25 & 29.2	44,215	-	68,382	-
		-	-	-	-
Total items that will not be reclassified to the Statement of Profit or Loss		43,972	(27,677)	70,344	(29,543)
Other Comprehensive Income for the year, net of tax		(1,118,133)	329,048	(1,091,760)	327,182
Total Comprehensive Income for the Year, Net of Tax		5,288,350	4,127,732	5,601,769	4,382,141
Attributable to:					
Equity Holders of the Parent		5,288,350	4,127,732	5,601,769	4,382,141

The Notes to the Financial Statements from pages 103 to 189 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 Voting LKR '000	Stated Capital Non-Voting LKR '000	Statutory Reserve Fund LKR '000	Retained Earnings LKR '000	OCI Reserve LKR '000	Revaluation Reserve LKR '000	Total LKR '000
As at 01 January 2020		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	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)	-	-	-
As at 31 December 2020		6,309,792	3,098,343	1,561,787	21,393,696	658,701	795,870	33,818,189
Profit for the year		-	-	-	6,406,483	-	-	6,406,483
Other Comprehensive Income		-	-	-	(243)	(1,162,105)	44,215	(1,118,133)
Total Comprehensive Income		-	-	-	6,406,240	(1,162,105)	44,215	5,288,350
Dividends for 2020	28	-	-	-	(567,704)	-	-	(567,704)
Transfers to the Statutory Reserve Fund	27.2	-	-	320,324	(320,324)	-	-	-
As at 31 December 2021		6,309,792	3,098,343	1,882,111	26,911,909	(503,404)	840,085	38,538,836

For the Year Ended 31 December GROUP	Notes	Stated Capital Voting LKR '000	Stated Capital Non-Voting LKR '000	Statutory Reserve Fund LKR '000	Retained Earnings LKR '000	OCI Reserve LKR '000	Revaluation Reserve LKR '000	Total LKR '000
As at 01 January 2020		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		-	-	-	4,025,417	356,725	-	4,382,141
Dividends for 2019	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)	-	-	-
As at 31 December 2020		6,309,792	3,098,343	1,561,787	22,265,430	658,701	1,230,875	35,124,928
Profit for the year		-	-	-	6,693,529	-	-	6,693,529
Other Comprehensive Income		-	-	-	1,962	(1,162,105)	68,382	(1,091,761)
Total Comprehensive Income		-	-	-	6,695,491	(1,162,105)	68,382	5,601,768
Dividends for 2020	28	-	-	-	(567,704)	-	-	(567,704)
Transfers to the Statutory Reserve Fund	27.2	-	-	320,324	(320,324)	-	-	-
As at 31 December 2021		6,309,792	3,098,343	1,882,111	28,072,893	(503,404)	1,299,257	40,158,992

The Notes to the Financial Statements from pages 103 to 189 form an integral part of, and should be read in conjunction with, these Financial Statements.

Statement of Cash Flows

For the Period Ended 31 December	Notes	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Cash Flows from Operating Activities					
Receipts of Interest Income		29,460,894	31,450,153	29,460,918	31,450,369
Receipts of Fees and Commission Income		7,074,253	5,104,970	7,310,830	5,372,313
Payments of Interest Expense		(13,934,816)	(18,625,900)	(13,872,573)	(18,554,229)
Payments of Fees and Commission Expense		(528,802)	(144,902)	(528,802)	(144,903)
Net Trading Income		2,654,043	2,433,397	2,654,043	2,433,397
Receipts from Other Operating Income		69,665	(335,355)	69,665	(335,355)
Gratuity Payments Made		(92,351)	(65,102)	(92,351)	(65,102)
Payments for Operating Expenses		(7,240,450)	(8,076,324)	(7,291,997)	(8,132,680)
Payments for VAT on Financial Services		(1,776,216)	(1,609,803)	(1,776,974)	(1,610,660)
Payments for Debt Repayment Levy (DRL)		-	(87,122)	-	(87,122)
Net Cash Flow from Operating Activities before Income Tax (A)		15,686,220	10,044,012	15,932,757	10,326,028
Income Tax paid		(1,696,440)	(2,239,778)	(1,745,961)	(2,294,133)
Operating Profit before Changes in Operating Assets and Liabilities		13,989,780	7,804,234	14,186,796	8,031,895
(Increase)/Decrease in Operating Assets	43.1	(37,267,168)	(20,898,470)	(37,273,739)	(20,886,935)
Increase/(Decrease) in Operating Liabilities	43.2	29,883,738	14,636,349	29,591,359	14,298,299
Net Cash Flows from Operating Activities		6,606,350	1,542,113	6,504,416	1,443,259
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	16	(51,901)	(100,571)	(52,632)	(103,114)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		314	3,814	314	4,417
Purchase of Intangible Assets	18	(291,962)	(225,516)	(291,962)	(226,385)
		(343,549)	(322,273)	(344,280)	(325,082)
Cash Flows from Financing Activities					
Net change in Other Borrowings		6,826,670	(4,344,427)	6,826,670	(4,344,427)
Proceeds from the issue of Senior Debt		4,000,000	-	4,000,000	-
Repayment of Subordinated Debt		(5,000,000)	-	(5,000,000)	-
Operating Lease Rentals Paid	17.4	(554,712)	(555,301)	(452,048)	(453,645)
Interest paid on Subordinated / Senior Debt		(1,650,466)	(1,661,349)	(1,650,466)	(1,661,349)
Dividends paid to Equity Holders of the Parent		(546,359)	(650,204)	(546,359)	(650,204)
		3,075,133	(7,211,281)	3,177,797	(7,109,625)
Net Increase/(Decrease) in Cash and Cash Equivalents		9,337,934	(5,991,446)	9,337,933	(5,991,448)
Cash and Cash Equivalents at the beginning of the period		10,495,544	16,486,991	10,495,625	16,487,073
Cash and Cash Equivalents at the end of the period		19,833,478	10,495,545	19,833,558	10,495,625
Reconciliation of Cash and Cash Equivalents					
Cash in Hand	6	9,345,250	8,422,390	9,345,273	8,422,413
Balances with Central Bank of Sri Lanka*	7	6,915,197	2,195,247	6,915,197	2,195,247
Balances with Banks	6	4,082,735	722,346	4,082,792	722,403
Deposits from Other Banks	19	(509,704)	(844,438)	(509,704)	(844,438)
		19,833,478	10,495,545	19,833,558	10,495,625
A. Reconciliation of Operating Profit					
Profit before Income Tax		8,090,329	5,734,159	8,419,874	6,058,818
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets		(237)	(1,276)	(237)	(1,334)
Impairment charge / (Reversal) for Loans and Receivables	36	3,742,159	3,846,621	3,742,159	3,846,621
Provision for Gratuity	37	157,769	158,269	159,502	159,874
(Increase) / Decrease in Interest Receivable		671,204	(3,357,679)	671,201	(3,357,679)
Increase/ (Decrease) in Interest Payable		(1,120,762)	(1,173,243)	(1,120,762)	(1,163,989)
Increase / (Decrease) in Financial Guarantee Liabilities & Deferred Income		641,008	(152,076)	641,008	(152,076)
(Increase) / Decrease in Fees & Commission Receivable		54,138	13,798	54,138	13,798
Increase / (Decrease) in Fees & Commission and Operating Expenses Payable		101,954	(489,534)	204,618	(388,023)
Other Non cash items	43.3	1,235,830	3,313,425	1,151,093	3,260,126
Operating Lease Rentals Paid	17.4	554,712	555,301	452,048	453,645
Interest Paid on Subordinated / Senior Debt		1,650,467	1,661,349	1,650,467	1,661,349
Gratuity Payments Made		(92,351)	(65,102)	(92,352)	(65,102)
		15,686,220	10,044,012	15,932,757	10,326,028

* As at 31 December 2021, LKR. 6,684.82 Mn (2020 - LKR 2,074.61 Mn) was not available for use by the Bank due to mandatory deposit at Central Bank of Sri Lanka.

The Notes to the Financial Statements from pages 103 to 189 form an integral part of, and should be read in conjunction with, these Financial Statements.

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 2021 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 93.

2.3 Approval of Financial Statements by Directors

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2021 were authorized for issue in accordance with the resolution of the Board of Directors on 23 February 2022.

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 obligations

Notes to the Financial Statements

2.5 Functional and Presentation Currency

The Consolidated Financial Statements 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.

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 Bank applied for the first time the amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2 which are effective for annual periods beginning on or after 1 January 2021. (Refer 2.8.1.1 below)

The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.

Certain prior year figures and phrases have been rearranged in order to be compatible with the presentation requirements of the Central Bank of Sri Lanka.

The other accounting policies adopted by the Bank/Group are consistent with those of the previous financial year.

2.8.1.1 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform Phase 1 and Phase 2.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context.

IBOR reform Phase 1

The interpretation of Highly Probable Requirement, Prospective assessments, LKAS 39 retrospective assessment, separately identifiable risk components were amended with the Phase 1. These amendments are mainly relates to hedge accounting and does not have impact on the financial statements of the Bank.

IBOR reform Phase 2

The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk free interest rate (RFR).

All LIBOR settings except for USD discontinued from 31st December 2021 and were replaced with alternative reference rates whilst USD LIBOR will be published until 30th June 2023. Given the inherent differences between LIBOR and the proposed alternative replacement rates, discussions are still underway to agree on the usage of the proposed rates. NTB has commenced the transition away from LIBOR and has set up a steering committee to oversee the process. Thus far, the Bank has informed all key stakeholders about the transition and have commenced customer communications and updating customer offer letters with prescribed fallback language.

2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's consolidated financial statements requires management to make judgements, 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 judgements 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

Notes to the Financial Statements

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. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax planning strategies.

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. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

(xi) Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate.

(xii) Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect

the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

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 2021 in terms of the Sri Lanka Accounting Standards, SLFRS 10 - Consolidated Financial Statements. The Bank's Financial 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

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 Bank 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 foreign exchange differences arising on non–trading activities are taken to 'Other Operating Income/Expense' in the Profit or Loss.

Non–monetary items that are measured at 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

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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).

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 amortization 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 minimise 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.

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

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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.

(viii) Financial guarantees, letter of credit and undrawn loan commitments

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees, bonds and acceptances.`

Financial guarantees are initially recognised in the financial statements (Within other liabilities) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each financial guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Profit or Loss, 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, letter 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 Modification of financial assets and liabilities

3.3.4.1 Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- Whether 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, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.3.4.2 Modification of financial liabilities

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at

the financial liability's original EIR. Any resulting difference is recognised immediately in Profit or Loss.

For financial liabilities, the Bank considers a modification to be 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.

3.3.5 Derecognition of financial assets and liabilities

3.3.5.1 Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired (POCI).

3.3.5.2 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
- 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.

3.3.6 The effective interest rate method

Under SLFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets. Interest

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expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account transactions costs and any discount or premium on acquisition of the financial asset or financial liability, as well as 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, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, 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.

3.3.7 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 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.

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.
- 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 Note 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.

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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 letters of credit, the ECL is recognised within Other Liabilities.
Financial guarantee contracts	The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the 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 are 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, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements.

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.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

(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

Notes to the Financial Statements

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 reschedulement of a loan may involve extending the payment arrangements and the agreement of new loan conditions. If modifications are substantial, the loan is derecognized. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's 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.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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. Any gain or loss arising from de-recognition of an item of property, plant and equipment is included in the Statement of Profit or Loss when the item is derecognised.

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.

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Amortization 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).

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.

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.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in Note 23, 25 and 40.

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 24% (2020-28%).

Subsidiary - Waldock Mackenzie Limited

Income tax on profit from operations is calculated at the rate of 24% (2020-28%).

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. Accordingly, 2% tax concessionary rate will be ceased by 31 March 2022 and will be taxed at 24% w.e.f 01 April 2022. Income tax on profit from other sources of income is calculated at 24% (2020-28%).

Subsidiary - Nations Insurance Brokers Limited

Income tax on profit from operations is calculated at the rate of 24% (2020-28%).

(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.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for the items that are charged or credited in the Other Comprehensive Income (OCI).

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.

(iii) Bank Levies

The Bank recognises the liability arising from levies when it becomes legally enforceable (i.e., when the obligating event arises) which is on 31 December each year.

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

Notes to the Financial Statements

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

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 fair value of financial instruments is generally measured on an individual basis. However, in cases where the Bank manages a group of financial assets and liabilities on the basis of its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis, however the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the SLFRS offsetting criteria.

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.

(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. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

As per SLFRS 15, the Bank adopts principles based five step model for revenue recognition. Accordingly, revenue is recognised only when all of the following criteria are met:

- The parties to the contract have approved the contract/s;
- The entity can identify each party's rights regarding the goods or services to be transferred;
- The entity can identify the payment terms for the goods or services to be transferred;
- The contract has the commercial substance;
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

a) Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include asset management, custody and other management and advisory services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

b) Fee and commission income from providing services where performance obligations are satisfied at a point in time

Services provided where the Group's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include 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 lending transactions or other securities.

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 applicability of SLFRS 15 to the Bank is limited for fee and commission income.

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 includes all realised and unrealised foreign exchange transactions and unrealized fair value changes on fixed income securities.

(iv) Net gain/(loss) on derecognition of financial assets measured at amortised cost or FVOCI

Net gain/(loss) on derecognition of financial assets measured at amortised cost includes income or loss recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

(v) 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.

(vi) 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.

Notes to the Financial Statements

(vii) 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 Commercial 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 networth, mass fluent customer segments and providing personal financing including personal, home loans, finance leases and credit card facilities and business financing for small and medium enterprises (SMEs) and mid-market enterprises (MMEs).

Treasury and Investment: Primary focus of business operations includes foreign exchange trading, fixed income security trading, assets & liabilities management, 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.

The following table 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 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to LKAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to LKAS 37
- Amendments to LKAS 1: Classification of Liabilities as Current or Non-current

None of the new or amended pronouncements are expected to have a material impact on the consolidated financial statements of the Group/Bank.

4 SEGMENT INFORMATION

4.1 Operating Segments

For the Year Ended 31 December 2021 LKR'000	Corporate Banking	Consumer & Commercial Banking	Treasury & Invetsments	Insurance Broking	Property Management	Unallocated/ Eliminations	Total Group
Operating Income	3,079,979	12,642,004	7,186,951	195,640	212,559	(47,753)	23,269,380
Impairment Charges	(518,299)	(2,468,113)	(755,746)	-	-	-	(3,742,158)
Net Operating Income	2,561,680	10,173,891	6,431,205	195,640	212,559	(47,753)	19,527,222
Extracts of Results							
Interest Income	5,933,921	14,655,125	7,839,381	25,232	31,996	171,603	28,657,258
Inter Segment	(3,153,679)	1,326,683	1,826,996	-	-	-	-
Interest Expense	(688,550)	(9,723,291)	(4,154,194)	(2,245)	(945)	(10,393)	(14,579,618)
Net Interest Income	2,091,692	6,258,517	5,512,183	22,987	31,051	161,210	14,077,640
Net Fees and Commission Income	735,502	5,056,424	231,697	172,653	181,508	(237,425)	6,140,359
Net Gains/(Losses) from Trading	252,785	453,494	1,766,333	-	-	(169)	2,472,443
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss	-	-	9,103	-	-	-	9,103
Net Gains/(Losses) on Derecognition of Financial Assets at Fair Value through Other Comprehensive Income	-	-	499,932	-	-	-	499,932
Other Operating Income/(Loss) -Net	-	873,569	(832,297)	-	-	28,631	69,903
Depreciation of Property,Plant and Equipment	(27,713)	(342,044)	(21,767)	(650)	(19,321)	(24,765)	(436,260)
Depreciation of Right of Use (ROU) Assets	-	(379,047)	-	(5,559)	(90,527)	81,698	(393,435)
Amortization of Intangible Assets	(74,218)	(239,351)	(23,905)	(124)	-	(1,439)	(339,037)
Capital Expenditures							
Property,Plant and Equipment	1,109	35,637	1,681	279	450	12,849	52,005
Intangible Assets	4,190	49,234	-	-	-	106,907	160,331
Total Assets (as at)	101,371,102	156,398,864	123,325,959	623,152	1,214,590	(3,381,790)	379,551,877
Total Liabilities (as at)	38,655,985	231,747,108	61,091,202	43,753	31,664	7,823,172	339,392,884

4 SEGMENT INFORMATION (CONTD.)

4.2 Operating Segments

For the Year Ended 31 December 2020 LKR'000	Corporate Banking	Consumer & Commercial Banking	Treasury & Invetsments	Insurance Broking	Property Management	Unallocated/ Eliminations	Total Group
Operating Income	2,606,214	11,986,951	6,023,947	235,839	185,017	(340,306)	20,697,662
Impairment Charges	(644,640)	(2,862,149)	(339,832)	-	-	-	(3,846,621)
Net Operating Income	1,961,574	9,124,802	5,684,115	235,839	185,017	(340,306)	16,851,041
Extracts of Results							
Interest Income	5,806,079	19,281,713	7,850,959	25,262	31,533	(51,801)	32,943,745
Inter Segment	(3,259,791)	1,745,320	1,514,471	-	-	-	-
Interest Expense	(628,885)	(14,146,955)	(4,500,615)	(360)	(1,028)	6,212	(19,271,631)
Net Interest Income	1,917,403	6,880,078	4,864,815	24,902	30,505	(45,589)	13,672,114
Net Fees and Commission Income	499,620	4,171,014	100,439	210,937	154,454	(318,382)	4,818,082
Net Gains/(Losses) from Trading	189,191	379,855	805,915	-	-	-	1,374,961
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss	-	-	(11,591)	-	-	-	(11,591)
Net Gains/(Losses) on Derecognition of Financial Assets at Fair Value through Other Comprehensive Income	-	-	1,178,117	-	-	-	1,178,117
Other Operating Income/(Loss) -Net	-	556,004	(913,748)	-	58	23,665	(334,021)
Depreciation of Property,Plant and Equipment	(29,750)	(392,583)	(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)
Amortization of Intangible Assets	(34,745)	(319,365)	(23,197)	(186)	-	(2,406)	(379,899)
Capital Expenditures							
Property,Plant and Equipment	1,110	31,977	-	117	2,435	76,377	112,016
Intangible Assets	-	286,956	2,264	867	-	57,596	347,683
Total Assets (as at)	68,930,071	147,050,528	118,998,769	487,807	1,041,888	1,482,253	337,991,316
							-
Total Liabilities (as at)	16,265,651	224,678,116	55,306,230	35,698	22,445	6,558,248	302,866,388

5 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Bank/Group

As at 31 December	2021			2020		
	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets						
Derivative Financial Instruments	472,864	-	472,864	239,535	-	239,535
Government Securities	6,150,508	67,503,862	73,654,369	2,416,792	73,241,685	75,658,477
Equity Instruments	-	16,898	16,898	-	16,150	16,150
Total Financial Assets	6,623,372	67,520,760	74,144,131	2,656,327	73,257,835	75,914,162
Liabilities						
Derivative Financial Instruments	165,699	-	165,699	250,700	-	250,700
Total Financial Liabilities	165,699	-	165,699	250,700	-	250,700

Note:
All other financial assets and financial liabilities are classified 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	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cash in Hand	9,345,250	8,422,390	9,345,273	8,422,414
Balances with Banks	4,082,735	722,346	4,082,792	722,403
	13,427,985	9,144,736	13,428,065	9,144,817
Less: Provision for Impairment for Balances with Banks (Note 6.1)	(534)	(196)	(534)	(196)
	13,427,451	9,144,540	13,427,531	9,144,621

6.1 Movement in provision for impairment during the year

	Bank / Group	
	2021 LKR '000	2020 LKR '000
Movement in Stage 1 Impairment		
Balance as at 01 January	196	1,046
Charge / (Write back) to the Income Statement (Note 36)	338	(850)
Balance as at 31 December	534	196

Notes to the Financial Statements

7 BALANCES WITH CENTRAL BANK OF SRI LANKA

As at 31 December	Bank / Group 2021 LKR '000	2020 LKR '000
Statutory Balance with Central Bank of Sri Lanka	6,813,183	2,195,247
Non Statutory Balance with Central Bank of Sri Lanka	102,014	-
	6,915,197	2,195,247

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 2021, the minimum cash reserve requirement was 4.0% (2020: 2.0%) 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 2021 LKR '000	2020 LKR '000
Due from;		
- Banks	-	1,002,324
- Other Financial Institutions	3,001,370	4,089,011
	3,001,370	5,091,335

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 3,357.91 Mn (2020 – LKR 5,639.43 Mn).

8.2 Repurchase agreements

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
On Securities of Government of Sri Lanka				
Due to;				
- Banks (Note 19)	-	3,250,406	-	3,250,406
- Other Financial Institutions	4,638,501	1,115,989	4,638,501	1,115,989
- Other Counterparties	5,555,809	5,966,841	4,126,504	4,796,692
	10,194,310	10,333,236	8,765,005	9,163,087
On Other Securities				
Due to;				
- Other Counterparties	705,456	479,758	664,225	479,758
	705,456	479,758	664,225	479,758
Total Repurchase Agreements	10,899,766	10,812,994	9,429,230	9,642,845
Repurchase Agreements Other than with Banks (Note 20)	10,899,766	7,562,588	9,429,230	6,392,440

8.3 Policy on Haircut for Repurchase and Reverse Repurchase Transactions

Remaining Tenor to Maturity	Reverse Repurchase Transactions	Repurchase Transactions
Up to 1 Year	10%	4%
More than 1 year and up to 3 years	10%	6%
More than 3 years and up to 5 years	12%	8%
More than 5 years and up to 8 years	15%	10%

9 DERIVATIVE FINANCIAL INSTRUMENTS

9.1 Derivative Assets- Held for Trading

At a Gain Position

	Bank / Group		Bank / Group	
	Fair Value of Assets	Contract amount	Fair Value of Assets	Contract amount
As at 31 December	2021 LKR '000	2021 LKR '000	2020 LKR '000	2020 LKR '000
Foreign Currency Derivatives				
- Currency Swaps	470,026	17,709,283	224,524	9,957,455
- Forward Foreign Exchange Contracts	2,822	150,150	12,121	2,107,500
- Spot Contracts	16	70,312	2,890	362,092
	472,864	17,929,745	239,535	12,427,047

9.2 Derivative Liabilities - Held for Trading

At a Loss Position

	Bank / Group		Bank / Group	
	Fair Value of Liabilities	Contract amount	Fair Value of Liabilities	Contract amount
As at 31 December	2021 LKR '000	2021 LKR '000	2020 LKR '000	2020 LKR '000
Foreign Currency Derivatives				
- Currency Swaps	163,974	13,303,987	230,251	12,165,983
- Forward Foreign Exchange Contracts	577	33,826	20,086	2,939,115
- Spot Contracts	1,148	134,596	363	98,775
	165,699	13,472,409	250,700	15,203,873

Notes to the Financial Statements

10 FINANCIAL ASSETS - RECOGNISED THROUGH PROFIT OR LOSS

As at 31 December	Bank / Group 2021 LKR '000	2020 LKR '000
Measured at Fair Value		
Government of Sri Lanka Treasury Bills	6,150,508	987,733
Government of Sri Lanka Treasury Bonds	-	1,429,059
	6,150,508	2,416,792

10.1 Analysis

As at 31 December	Bank / Group 2021 LKR '000	2020 LKR '000
By Collateralisation		
Pledged as collateral	-	-
Unencumbered	6,150,508	2,416,792
	6,150,508	2,416,792
By Currency		
Sri Lankan Rupee	6,150,508	2,416,792
United States Dollar	-	-
	6,150,508	2,416,792

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	Bank / Group 2021 LKR '000	2020 LKR '000
Debt Instruments		
- Government of Sri Lanka Treasury Bills	40,595,858	50,462,433
- Government of Sri Lanka Treasury Bonds	26,469,868	22,302,053
- Sri Lanka Sovereign Bonds	438,136	477,199
Equity Instruments (Note 11.1)	16,898	16,150
	67,520,760	73,257,835

11.1 Equity Instruments at Fair Value through Other Comprehensive Income

As at 31 December	Bank / Group 2021 LKR '000	2020 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	3,000
300,000 Ordinary Shares of LKR 10/- each		
Society of Worldwide Interbank Financial Telecommunication (SWIFT)	12,308	11,560
12 Ordinary Shares		
	16,898	16,150

11.2 Analysis

As at 31 December	Bank / Group 2021 LKR '000	2020 LKR '000
By Collateralisation		
Pledged as collateral	11,496,201	11,801,298
Unencumbered	56,024,559	61,456,537
	67,520,760	73,257,835
By Currency		
Sri Lankan Rupee	67,070,316	72,769,076
United States Dollar	450,444	488,759
	67,520,760	73,257,835

12 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS

As at 31 December	Bank / Group 2021 LKR '000	2020 LKR '000
Government of Sri Lanka Treasury Bonds	13,770,272	13,526,578
Sri Lanka Development Bonds	8,523,786	9,540,886
Sri Lanka Sovereign Bonds	4,141,009	3,420,341
Quoted Debentures (Note 12.1)	769,901	514,240
Less: Provision for Impairment (Note 12.3)	(1,064,670)	(353,962)
	26,140,298	26,648,083

Notes to the Financial Statements

12 FINANCIAL ASSETS AT AMORTISED COST - DEBT INSTRUMENTS (CONTD.)

12.1 Quoted Debentures

Company	Type	No of Debentures		LKR '000	
		2021	2020	2021	2020
Commercial Leasing & Finance PLC	Unsecured, Redeemable Debentures	500,000	500,000	514,240	514,240
LOLC Ceylon Holdings Limited	Senior Listed, Redeemable Debentures	2,500,000	-	255,661	-
		3,000,000	500,000	769,901	514,240

12.2 Analysis

As at 31 December	Bank / Group	
	2021 LKR '000	2020 LKR '000
By Collateralisation		
Pledged as collateral	749,374	447,728
Unencumbered	25,390,924	26,200,355
	26,140,298	26,648,083
By Currency		
Sri Lankan Rupee	14,540,044	14,040,738
United States Dollar	11,600,254	12,607,345
	26,140,298	26,648,083

12.3 Movement in Stage 1 impairment during the year

As at 31 December	Bank / Group	
	2021 LKR '000	2020 LKR '000
Balance as at 01 January	353,962	32,125
Charge/(Write back) to Income Statement (Note 36)	710,708	321,837
Balance as at 31 December	1,064,670	353,962

13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

13.1 Credit Exposure Movement – ECL stage-wise

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts and Impairment by Loans & Advances.

Bank

	2021				2020			
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000
Gross Loans & Advances as at 01st January	188,702,042	5,484,987	24,575,616	218,762,645	194,138,849	14,969,169	25,266,971	234,374,989
Transfer to Stage 1	3,586,710	(2,350,255)	(1,236,455)	-	11,777,175	(6,934,000)	(4,843,175)	-
Transfer to Stage 2	(13,199,837)	18,328,617	(5,128,780)	-	(3,379,080)	3,451,301	(72,222)	-
Transfer to Stage 3	(1,817,915)	(474,425)	2,292,340	-	(5,134,748)	(1,995,592)	7,130,340	-
New assets originated or purchased	103,699,597	3,531,146	425,025	107,655,768	60,518,649	(2,392,005)	2,130,959	60,257,603
Net Movement in Allowance for day 1 difference of staff loans*	159,816	-	-	159,816	71,172	-	-	71,172
Financial assets derecognized or repaid (excluding write-offs)	(62,694,925)	(2,018,670)	(6,869,273)	(71,582,868)	(69,289,975)	(4,865,342)	(5,369,538)	(79,524,856)
Write-offs	-	-	(540,150)	(540,150)	-	-	(2,420,519)	(2,420,519)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	2,529,258	1,484,763	4,014,021	-	3,251,456	2,752,800	6,004,256
Gross Loans & Advances as at 31st December	218,435,488	25,030,658	15,003,086	258,469,232	188,702,042	5,484,987	24,575,616	218,762,645
Provision for impairment (ECL) (Note 13.5)	1,442,137	1,679,978	7,905,688	11,027,804	1,083,661	621,865	6,871,632	8,577,159
Net Loan and Advances	216,993,351	23,350,680	7,097,397	247,441,428	187,618,381	4,863,121	17,703,984	210,185,486

Group

	2021				2020			
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000
Gross Loans & Advances as at 01st January	188,702,354	5,484,986	24,575,746	218,763,086	194,139,160	14,969,169	25,267,101	234,375,430
Transfer to Stage 1	3,586,710	(2,350,255)	(1,236,455)	-	11,777,175	(6,934,000)	(4,843,175)	-
Transfer to Stage 2	(13,199,837)	18,328,617	(5,128,780)	-	(3,379,079)	3,451,301	(72,222)	-
Transfer to Stage 3	(1,817,915)	(474,425)	2,292,340	-	(5,134,748)	(1,995,592)	7,130,340	-
New assets originated or purchased	103,699,597	3,531,146	425,025	107,655,768	60,518,649	(2,392,005)	2,130,959	60,257,603
Net Movement in Allowance for day 1 difference of staff loans*	159,816	-	-	159,816	71,172	-	-	71,172
Financial assets derecognized or repaid (excluding write-offs)	(62,695,236)	(2,018,670)	(6,869,273)	(71,583,179)	(69,289,975)	(4,865,343)	(5,369,538)	(79,524,856)
Write-offs	-	-	(540,150)	(540,150)	-	-	(2,420,519)	(2,420,519)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	2,529,258	1,484,763	4,014,021	-	3,251,456	2,752,800	6,004,256
Gross Loans & Advances at 31st December	218,435,490	25,030,658	15,003,215	258,469,361	188,702,354	5,484,986	24,575,746	218,763,086
Provision for impairment (ECL) (Note 13.5)	1,442,137	1,679,978	7,905,688	11,027,804	1,083,661	621,865	6,871,633	8,577,159
Net Loan and Advances	216,993,350	23,350,680	7,097,397	247,441,557	187,618,693	4,863,121	17,704,113	210,185,927

Notes to the Financial Statements

13 FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD.)

13.1 Credit Exposure Movement – ECL stage-wise (Contd.)

*Gross loans included under stage 1 reflects the balance net of allowance for day 1 difference of staff loans of LKR 544.943 Mn (2020 - LKR 704.759 Mn) (Note 14) which add on to LKR 259,014.175 Mn (2020 - 219,467.405 Mn.)

Gross amount of loans & advances individually determined to be impaired, before deducting individually assessed impairment allowance amounts to LKR 15,554 Mn (2020 - LKR 14,620 Mn).

Impairment provision made inrespect of commitment and contingent liabilities amounts to LKR 474,810 Mn (2020 - LKR 487,735 Mn) reflected in Note 24.3.

The bank follows the directions issued by Central Bank of Sri Lanka in defining and Staging of Restructured and Rescheduled loans. Accordingly, the bank classify loans restructured up to two times as Stage 2 and loans restructured for more than two times and rescheduled loans as Stage 3.

The bank restructured LKR 2,530Mn (2020- LKR 3,251Mn) worth of loans whilst loans amounted to LKR 1,485Mn (2020-LKR 2,753 Mn) were rescheduled during the same period. During 2021, the bank upgraded restructured and rescheduled loans amounted to 1,925Mn to Stage 1 (2020- 2,563 Mn). Out of loans upgraded in current and previous years, a restructured loan sum of 2,285Mn (2020 - LKR 1,164) and rescheduled loan sum of 1,475Mn (2020- LKR 2,618 Mn) were classified in Stage 2 or 3 as of the end of the reporing period.

The bank continues with legal actions for written off contracts even though amount receivable is excluded from the loan book for administrative purposes.

13.2 Gross Loans and Advances by Product

As at 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Bills of Exchange	14,077	3,638	14,077	3,638
Trade Finance	62,511,952	40,475,066	62,511,952	40,475,066
Overdrafts	37,710,535	30,832,995	37,710,535	30,832,995
Term Loans	87,427,504	76,108,212	87,427,504	76,108,212
Staff Loans	3,818,727	3,960,179	3,818,727	3,960,179
Leases (Note 13.6)	34,828,770	39,303,114	34,828,770	39,303,114
Credit Cards	32,155,760	28,261,321	32,155,760	28,261,321
Pawning	283,900	259,929	283,900	259,929
Other Advances	262,950	262,951	262,950	263,263
	259,014,175	219,467,405	259,014,175	219,467,717

13.3 Gross Loans and Advances by Currency

As at 31 December	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Sri Lanka Rupee	219,942,485	193,944,227	219,942,485	193,944,539
United States Dollar	37,561,274	25,307,484	37,561,274	25,307,484
Great Britain Pound	30,644	40,923	30,644	40,923
Others	1,479,772	174,771	1,479,772	174,771
	259,014,175	219,467,405	259,014,175	219,467,717

13.4 Gross Loans and Advances by Industry

The industry wise exposure of gross Loans and advances are disclosed in Note 47.

13.5 Movement in impairment during the year

Bank/ Group

	2021				2020			
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000
As at 01st January	1,083,661	621,865	6,871,632	8,577,159	1,009,992	343,589	6,229,838	7,583,419
Transfer to Stage 1	434,409	(98,365)	(336,044)	-	890,859	(194,018)	(696,841)	-
Transfer to Stage 2	(81,162)	126,045	(44,883)	-	(25,576)	54,933	(29,356)	-
Transfer to Stage 3	(34,021)	(31,351)	65,371	-	(41,468)	(39,293)	80,760	-
Net remeasurement of impairment	(82,658)	1,017,943	2,214,467	3,149,752	(740,356)	474,849	4,042,661	3,777,153
Financial assets derecognized or repaid (excluding write-offs)	(171,210)	(42,963)	(792,586)	(1,006,758)	(191,464)	(73,459)	(771,025)	(1,035,948)
Write-offs	-	-	(540,150)	(540,150)	(1,627)	-	(2,423,037)	(2,424,664)
New assets originated or purchase	293,119	86,802	467,881	847,802	183,301	55,264	438,633	677,198
As at 31st December	1,442,137	1,679,978	7,905,688	11,027,804	1,083,661	621,865	6,871,633	8,577,159

In response to COVID-19 and the Bank's expectations of economic impacts, key assumptions used in the Bank's calculation of ECL have been revised. As of the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Staging of the facilities identified with an elevated risk was moved to a higher stage where necessary to capture the significant increase in credit risk due to COVID-19. The bank evaluated the total loan book during the identification of risk elevated customers. The bank followed a customer level assessment which is not limited to the customer's industry but certain other aspects like income level, remaining loan value, historical repayment trends, group support etc. and believes that additional ECL provisions made as a management overlay are sufficient to absorb economic shocks of the COVID - 19 during 2022. The process followed in 2021 to identify customers with an elevated risk is a more refined and granular method compared to the purely industry-based assumption used in 2020.

13.6 Rental Receivable on Leases

As at 31 December	2021 Bank/Group				2020 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	15,246,882	23,319,748	9,802,088	48,368,717	21,112,039	26,179,448	11,414	47,302,901
Less : Unearned Income	(3,604,762)	(5,925,414)	(4,009,771)	(13,539,947)	(3,958,031)	(4,041,471)	(285)	(7,999,787)
Net Rentals Receivables	11,642,120	17,394,334	5,792,317	34,828,770	17,154,008	22,137,977	11,129	39,303,114
Less : Allowance for Impairment Losses	-	-	-	(473,528)	-	-	-	(348,034)
Total Net Rentals Receivables	11,642,120	17,394,334	5,792,317	34,355,242	17,154,008	22,137,977	11,129	38,955,080

Notes to the Financial Statements

14 OTHER ASSETS

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Deposits and Prepayments	329,019	369,154	337,498	377,854
Unamortized Staff Cost (Note 13)	544,944	704,760	544,944	704,760
Debenture Proceeds Receivable	-	105,178	-	105,178
Senior Citizen interest reimbursement	595,965	645,721	595,965	645,721
Other Receivables	573,989	589,356	606,146	613,770
Less: Impairment for Leasing Charges and Other Receivables (Note 14.1)	(30,357)	(30,107)	(38,206)	(37,955)
	2,013,560	2,384,062	2,046,347	2,409,328

14.1 Movement in Impairment during the year

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Balance as at 01 January	30,107	22,524	37,956	30,373
Charge / (write back) to income statement (Note 36)	8,543	29,704	8,543	29,704
Write -off during the Year	(8,293)	(22,121)	(8,293)	(22,121)
Balance as at 31 December	30,357	30,107	38,206	37,956

15 INVESTMENTS IN SUBSIDIARIES

Unquoted As at 31 December Name of Company	Country of Incorporation	Bank 2021 Holding %	Bank 2020 Holding %	Bank 2021 Cost LKR '000	Bank 2020 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	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office and Electrical Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold improvements	Capital Work In Progress	Total
Cost	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2020	1,578,900	-	154,730	25,999	783,605	2,434,980	880,247	432,183	9,094	6,299,739
Additions	-	-	4,470	-	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
Additions	-	-	-	-	5,878	41,859	3,540	-	-	51,277
Disposals	-	-	-	-	-	(9,089)	-	-	-	(9,089)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	827	827
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(201)	(201)
As at 31 December 2021	1,578,900	-	159,200	4,799	802,961	2,494,460	894,084	434,824	827	6,370,055
Depreciation / Amortization										
As at 01 January 2020	-	-	-	21,283	559,020	1,727,368	637,010	331,282	-	3,275,963
Charge for the year	-	-	4,973	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
Charge for the year	-	-	5,215	-	59,425	251,521	50,325	27,544	-	394,030
Disposals	-	-	-	-	-	(9,013)	-	-	-	(9,013)
As at 31 December 2021	-	-	10,188	4,500	681,970	2,200,125	747,557	395,036	-	4,039,376
At 01 January 2020	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
At 31 December 2021	1,578,900	-	149,012	299	120,991	294,335	146,527	39,788	827	2,330,679

During the financial year, the Bank acquired Property, Plant and Equipment to the aggregate value of LKR 51 Mn (2020 -LKR 109 Mn). Cash payments amounting to LKR 51.9 Mn (2020- LKR 100.6 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 2,924 Mn. (2020- LKR 2,454 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	2021			2020		
	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	51,854	72,418	124,272	48,845	75,427
Total	683,712	51,854	631,858	683,712	48,845	634,867

16 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

16.2 Group

Gross Carrying Amounts	Land - Freehold	Land - Leasehold	Buildings	Motor Vehicles	Office and Electrical Equipments	Computer hardware	Furniture, Fixtures and Fittings	Leasehold improvements	Capital Work In Progress	Total
Cost	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January 2020	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	-	-	4,470	-	18,435	75,574	10,709	2,829	-	112,016
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
Additions	-	-	-	-	6,430	41,859	3,717	-	-	52,006
Disposals	-	-	-	-	-	(9,089)	-	-	-	(9,089)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	827	827
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(201)	(201)
As at 31 December 2021	1,578,900	148,000	1,050,248	4,969	847,983	2,500,162	898,820	434,823	827	7,464,730
Depreciation / Amortization										
As at 01 January 2020	-	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
Charge for the year	-	1,893	39,412	-	64,683	251,973	50,755	27,544	-	436,260
Disposals	-	-	-	-	-	(9,013)	-	-	-	(9,013)
As at 31 December 2021	-	30,134	78,582	4,667	701,830	2,205,333	750,905	395,034	-	4,166,482
Net Book Value										
At 01 January 2020	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
At 31 December 2021	1,578,900	117,866	971,666	302	146,153	294,829	147,915	39,789	827	3,298,248

During the financial year, the Group acquired property, plant and equipment to the aggregate value of LKR 52 Mn. (2020 -LKR 112 Mn.). Cash payments amounting to LKR 52.6 Mn (2020- LKR 103.1 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 2,932 Mn (2020- LKR 2,460 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 Group's freehold land and buildings, if they were carried at cost less accumulated depreciation would be as follows;

As at 31 December	2021			2020		
	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	232,074	358,968	591,042	217,128	373,914
Total	1,150,482	232,074	918,408	1,150,482	217,128	933,354

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 Fort, Colombo 01	31-12-2019	177.50	27.09	201.90	19.10	24.40	(7.99)	16.41
Total - Bank		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
Total - Group *		1,401.50	781.25	1,578.90	1,045.78	177.40	264.52	441.92

* Land and Buildings consist of properties of Nations Trust Bank PLC (The Bank) and Allied Properties Limited. Method of Valuation is disclosed in Note 46.2.1

17 RIGHT OF USE ASSETS (ROU)

17.1 The key assumptions used for the computation of operating lease liabilities include the following:

	2021	2020
Incremental Borrowing Rate	11%	11%

17.2

	Bank				Group			
	Land & Buildings	Computer related Equipment	Motor Vehicles	Total	Land & Buildings	Computer related Equipment	Motor Vehicles	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross Carrying Amount								
As at 01 January 2020	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	2,200,895
Additions	605,441	-	2,963	608,404	243,335	-	2,963	246,298
Disposals / Derecognition	(132,484)	-	(2,963)	(135,447)	(132,484)	-	(2,963)	(135,447)
As at 31 December 2021	2,412,716	212,170	48,966	2,673,851	2,050,610	212,170	48,966	2,311,746
Depreciation								
As at 01 January 2020	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
Depreciation charge for the year	435,157	34,417	14,387	483,961	344,631	34,417	14,387	393,435
Disposals / Derecognition	(132,484)	-	(2,963)	(135,447)	(132,484)	-	(2,963)	(135,447)
As at 31 December 2021	930,047	93,269	27,710	1,051,026	839,520	93,269	27,710	960,500
Net Book Value								
As at 01 January 2020	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	1,312,386	153,318	32,680	1,498,382	1,312,385	153,318	32,680	1,498,382
As at 31 December 2021	1,482,669	118,901	21,256	1,622,825	1,211,090	118,901	21,256	1,351,245

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.

	Bank		Group	
	2021	2020	2021	2020
Incremental Borrowing Rate				
12%	1,730,845	1,493,726	1,464,489	1,493,726
10%	1,815,762	1,576,563	1,549,406	1,576,563

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
As at 01 January 2020	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
Additions	587,511	225,405
Accretion of interest	197,263	160,698
Payments	(554,712)	(452,048)
As at 31 December 2021	1,698,010	1,402,003

The Bank & Group had total cash outflows for leases of LKR 554.7 Mn and LKR 452.0 Mn respectively. (2020 - LKR 555.3 Mn & 453.6 Mn).

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
Cost						
As at 01 January 2020	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)
As at 31 December 2020	3,270,431	331,288	3,601,719	3,271,299	331,288	3,602,587
Additions	160,331		160,331	160,331	-	160,331
Capital WIP - Additions during the year	193,546	-	193,546	193,546	-	193,546
Capital WIP - Capitalized during the year	(61,915)	-	(61,915)	(61,915)	-	(61,915)
As at 31 December 2021	3,562,393	331,288	3,893,681	3,563,261	331,288	3,894,549
Amortization						
As at 01 January 2020	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)
As at 31 December 2020	2,049,012	331,288	2,380,300	2,049,020	331,288	2,380,308
Charge for the year	338,913	-	338,913	339,037	-	339,037
As at 31 December 2021	2,387,925	331,288	2,719,213	2,388,057	331,288	2,719,345
Net Book Value						
As at 01 January 2020	1,353,495	22,086	1,375,581	1,354,073	22,086	1,376,159
As at 31 December 2020	1,221,419	-	1,221,419	1,222,279	-	1,222,279
As at 31 December 2021	1,174,468	-	1,174,468	1,175,204	-	1,175,204

During the financial year, the Bank acquired Intangible Assets to the aggregate value of LKR 160 Mn (2020- LKR 347 Mn). Cash payments amounting to LKR 292 Mn (2020- LKR 225.5 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 160 Mn (2020- LKR 348 Mn). Cash payments amounting to LKR 292 Mn (2020- LKR 226.4 Mn) were made during the year for purchase of Intangible Assets.

* Reclassifications represents transfer of operating software from computer software to computer hardware.

Notes to the Financial Statements

19 DUE TO BANKS

As at 31 December	Bank/ Group 2021 LKR '000	2020 LKR '000
Money Market Borrowing	1,506,401	846,728
Securities Sold under Repurchase Agreements (Repo) (Note 8.2)	-	3,250,406
Deposits from Other Banks	509,704	844,439
	2,016,105	4,941,573

20 FINANCIAL LIABILITIES AT AMORTISED COST

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Due to Depositors (Note 20.1)	267,991,907	240,584,022	267,988,264	240,574,266
Securities sold under repurchase (repo) agreements (Note 8.2)	10,899,766	7,562,588	9,429,230	6,392,440
Due to Other Borrowers (Note 20.2)	35,601,356	28,040,126	35,305,349	28,040,126
	314,493,029	276,186,736	312,722,843	275,006,832

20.1 Analysis of Amount due to Depositors

20.1.1 By Product

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Demand Deposits	33,234,764	21,964,545	33,231,121	21,954,789
Savings Deposits	73,802,033	55,619,756	73,802,033	55,619,756
Time Deposits	160,955,110	162,999,721	160,955,110	162,999,721
	267,991,907	240,584,022	267,988,264	240,574,266

20.1.2 By Currency

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Sri Lanka Rupee	215,534,779	205,740,131	215,531,136	205,730,375
United States Dollar	46,138,593	28,504,220	46,138,593	28,504,220
Sterling Pound	2,196,762	2,111,573	2,196,762	2,111,573
Others	4,121,772	4,228,098	4,121,772	4,228,098
	267,991,906	240,584,022	267,988,263	240,574,266

20.2 Due to Other Borrowers

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Development Finance Institutions (DFI) (Note 20.2.1)	21,985,394	15,374,122	21,985,394	15,374,122
Refinance Borrowings	5,798,273	4,962,647	5,798,273	4,962,647
Financial Institutions	6,119,679	6,235,409	6,119,679	6,235,409
Operating Lease Liability	1,698,010	1,467,948	1,402,003	1,467,948
	35,601,356	28,040,126	35,305,349	28,040,126

20.2.1 These borrowings are from Foreign Development Finance Institutions with an original maturity up to 5 years. Interest is payable on a variable base with a fixed spread.

21 DEBT SECURITIES ISSUED

As at 31 December	Bank/Group 2021 LKR '000	Bank/Group 2020 LKR '000
Subordinated Debt Securities Issued by the Bank		
Rated, Unsecured, Redeemable Debentures(Note 21.1)	8,179,685	13,261,973
Senior Debt Securities Issued by the Bank		
Unlisted, Rated, Unsecured, Senior, Redeemable Debentures	4,173,188	-
	12,352,873	13,261,973

21 DEBT SECURITIES ISSUED (CONTD.)

21.1 Details of Subordinated Debentures Issued by the Bank / Group

Debenture Categories	CSE Listing	Interest Payable Frequency	Issued Date	Maturity Date	Face Value		Market Values 2021			Interest Rates 2021		Interest Rate of Comparable Government Security		Other ratios as at date of Last Trade	
					2021	2020	Highest	Lowest	Year End	Coupon Rate	Effective Annual Yield	2021	2020	Interest Yield	Yield to Maturity
					LKR '000	LKR '000	LKR	LKR	LKR	%	%	%	%	%	%
Floating	NTB-BD-08/11/21-C2363	Semi-Annually	8-Nov-16	8-Nov-21	-	2,410	Not traded during the current period			6.64**	6.75**	-	4.98**	Not traded during the current period	
Fixed Rate	NTB-BD-08/11/21-C2365-12.65	Semi-Annually	8-Nov-16	8-Nov-21	-	3,885,800	101.45	101.45	101.45	12.65	13.05	-	4.98	12.47	7.14
Fixed Rate	NTB-BD-08/11/21-C2364-12.8	Annually	8-Nov-16	8-Nov-21	-	1,111,790	Not traded during the current period			12.80	12.80	-	4.98	Not traded during the current period	
Fixed Rate	NTB-BD-20/04/23-C2402-12.65	Semi-Annually	20-Apr-18	20-Apr-23	2,213,000	2,213,000	Not traded during the current period			12.65	13.05	8.35	5.88	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	8.35	5.88	Not traded during the current period	
Fixed Rate	NTB-BD-23/12/24-C2441-12.8	Annually	23-Dec-19	23-Dec-24	2,700,000	2,700,000	Not traded during the current period			12.80	12.80	9.50	6.45	Not traded during the current period	
Fixed Rate	NTB-BD-23/12/26-C2442-12.9	Annually	23-Dec-19	23-Dec-26	1,800,000	1,800,000	Not traded during the current period			12.90	12.90	10.85	6.80	Not traded during the current period	
					8,000,000	13,000,000									

Ratios of Debt	2021	2020
Debt * / Equity Ratio%	80.64	84.58
Interest Cover (Times)	3.94	3.05
Quick Asset Ratio %	150	155

*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 2021.

22 RETIREMENT BENEFIT OBLIGATIONS

The employee benefit liability is based on the actuarial valuation as of 31 December 2021, 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:

	2021	2020
Rate of Discount	11.40%	7.75%
Rate of Salary Increase	10.0%	7.0%
Retirement Age	60 years	55-60 years

22.1 Net benefit expense categorized under personnel expenses:

	Bank		Group	
As at 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Interest Cost	59,991	64,595	60,857	65,286
Current Service Cost	102,600	93,674	103,597	94,588
Past Service Cost / (Income)	(4,821)	-	(4,952)	-
	157,770	158,269	159,502	159,874

22.2 Changes in the present value of the Retirement Benefit Plan are as follows;

	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
As at 01 January	774,073	652,473	785,249	659,454
Interest Cost (Note 22.1)	59,991	64,595	60,857	65,286
Current Service Cost (Note 22.1)	102,600	93,674	103,597	94,588
Past Service Cost (Note 22.1)	(4,821)	-	(4,952)	-
Benefits Paid	(81,691)	(62,796)	(81,691)	(62,796)
Gratuity Payable	(14,009)	(12,315)	(14,009)	(12,315)
Actuarial (Gain)/ Loss	(4,350)	38,442	(7,066)	41,032
As at 31 December	831,793	774,073	841,985	785,249

Notes to the Financial Statements

22 RETIREMENT BENEFIT OBLIGATIONS (CONTD.)

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 assuming the above is as follows;

	Group 2021				Group 2020			
	Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income	Salary Escalation Rate	Discount Rate	PVDBO LKR '000	Effect on Other Comprehensive Income
	%	%	LKR '000	LKR '000	%	%	LKR '000	LKR '000
	10.0	12.40	785,608	56,377	7.0	8.75	743,605	41,644
	10.0	10.40	877,960	(35,975)	7.0	6.75	831,609	(46,360)
	11.0	11.40	881,951	(39,966)	8.0	7.75	835,149	(49,900)
	9.0	11.40	781,268	60,717	6.0	7.75	739,662	45,587

22.4 Average Future working Life Time as per the assumptions made in year 2021: 6.96 years (Year 2020: 5.99 years).

22.5 The Retirement Benefit Plan of the Bank was amended due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 of 2021.

As on 17 Nov 2021, employees who have attained the age of	Retirement age
Less than 52 years	60 years
53 years	59 years
54 years	58 years
55 years	57 years

The resulting change in the present value of defined benefit obligation was recognised in profit (or loss) as a past service income of LKR 4,821 (2020 - Nil).

23 CURRENT TAX LIABILITIES

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Balance as at 01 January	1,293,147	1,337,499	1,319,575	1,362,108
Payments made / Tax credits set off	(1,696,440)	(2,239,781)	(1,745,326)	(2,305,358)
Charge for the year (Note 40.1)	3,208,959	2,195,429	3,260,683	2,262,825
Over Provisions made in Previous Years (Note 40.1)	(365,035)	-	(374,220)	-
Balance as at 31 December	2,440,631	1,293,147	2,460,712	1,319,575

As per the Inland Revenue (Amendment) Act No 10 of 2021 (Certified on 13 May 2021), the income tax rate applicable for the banking sector was reduced to 24% from the year of assessment 2020/21 and the income from foreign sources was exempted from income tax from year of assessment 2020/21.

The over provision in respect of the prior year is;

For Bank : the income tax liability as at 31 December 2020 was decreased by LKR.365 Mn resulting in an increase of LKR. 365 Mn in profit after tax.

For Group : the income tax liability as at 31 December 2020 was decreased by LKR 374 Mn resulting in an increase of LKR 374 Mn in profit after tax.

24 OTHER LIABILITIES

As at 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Accounts Payable and Sundry Creditors	3,064,942	1,781,460	3,082,222	1,792,912
Obligations under Financial Guarantees (Note 24.1)	157,386	124,355	157,386	124,355
Margin Balances	1,621,272	622,491	1,621,272	622,491
Pay Orders	463,418	547,738	463,418	547,738
Share Based Payments (Note 24.2)	72,623	72,623	72,623	72,623
Impairment in respect of off-balance sheet credit exposure (Note 24.3)	474,810	487,735	474,810	487,735
Others	2,948,450	2,608,432	2,960,937	2,624,845
	8,802,901	6,244,834	8,832,668	6,272,709

24.1 The movement in 'Obligations under Financial Guarantees' during the year is as follows;

As at 31 December	Bank/Group 2021 LKR '000	Bank/Group 2020 LKR '000
As at 01 January	124,355	150,856
Income recognised during the year	(397,134)	(308,181)
Arising during the Year	430,165	281,680
As at 31 December	157,386	124,355

24.2 Share Based Payments

Provision for Employee Share Appreciation Rights (ESAR)

	Bank/Group									
	Scheme 1 - 2017		Scheme 2 - 2018		Scheme 3- 2019		Scheme 4- 2020		Scheme 5- 2021	
	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000	Number of SARs	Value LKR '000
As at 01 January 2020	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	(10,281)	(239)	(16,667)	(437)	(14,456)	(178)	-	-	-	-
Movement of ESAR during the year	-	(3,257)	-	(2,351)	-	(5,112)	-	26,178	-	-
As at 31 December 2020	584,768	10,345	1,011,327	24,153	1,123,302	8,753	1,358,656	29,370	-	-
Granted during the year	-	-	-	-	-	-	-	-	1,500,000	5,214
Exercised during the year	-	-	-	-	-	-	-	-	-	-
Cancelled during the year	(33,266)	(589)	(111,364)	(2,660)	(144,557)	(1,126)	(173,075)	(3,741)	(167,276)	(581)
Forfeited during the year	-	-	(18,182)	(477)	(13,605)	(106)	(11,538)	(249)	-	-
Movement of ESAR during the year	-	(9,756)	-	(17,185)	-	(3,729)	-	(1,374)	-	36,361
As at 31 December 2021	551,502	-	881,781	3,833	965,140	3,791	1,174,043	24,005	1,332,724	40,994

The valuation of the ESAR as at 31 December 2021 for each scheme is given below.

Scheme	LKR '000
Scheme 1	-
Scheme 2	626
Scheme 3	619
Scheme 4	3,920
Scheme 5	6,695

Notes to the Financial Statements

24.2 Share Based Payments (Contd.)

The following table lists the input to the model used for valuation of the liability as at 31 December each year.

	2021					2020			
	Scheme 1	Scheme 2	Scheme 3	Scheme 4	Scheme 5	Scheme 1	Scheme 2	Scheme 3	Scheme 4
Dividend Yield	3.69%	3.69%	3.69%	3.69%	3.69%	3.80%	3.80%	3.80%	3.80%
Expected Volatility	19.60%	19.60%	19.60%	19.60%	19.60%	14.59%	14.59%	14.59%	14.59%
Risk Free Interest Rate	8.24%	8.24%	8.24%	8.24%	8.24%	5.05%	5.05%	5.05%	5.05%
Employee turnover	15.30%	15.30%	15.30%	15.30%	15.30%	10.10%	10.10%	10.10%	10.10%
Expected Life of the Option	0.5 Years	1.25 Years	2.25 Years	3.25 Years	4.25 Years	1.5 Years	2.25 Years	3.25 Years	4.25 Years
Weighted Average Share Price on Grant Date	79.29	78.47	89.61	72.26	54.98	79.29	78.47	89.61	72.26
Adjusted Share Price on Grant Date	75.64	76.80	89.61	72.26	54.98	75.64	76.80	89.61	72.26

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Global and domestic market activities were substantially affected during 2020 and 2021 due to the conditions prevailed during the period as a result of COVID 19 pandemic, leading to a significant drop in share prices as at 31 December 2020 and 2021.

With prospects of the market would regain in 2022, the Bank expect an increase in its share prices. Hence, management conclud that it shall be deemed appropriate not to reverse the provision estimates that have been recorded in the financial statements due to temporary/ short term fluctuations, in order to avoid unnecessary reversals and subsequent recognition of provision.

24.3 Impairment in respect of off-balance sheet credit exposure

Bank / Group

Provision for impairment (ECL)	2021				2020			
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000
As at 01st January	474,639	13,096	-	487,735	400,108	28,947	-	429,054
Transfer to Stage 1	(2,567)	2,567	-	-	8,464	(8,464)	-	-
Transfer to Stage 2	(5,686)	5,686	-	-	(4,734)	4,734	-	-
Transfer to Stage 3	(4,941)	(205)	5,145	-	(1,647)	(1,063)	2,710	-
Net remeasurement of impairment	(4,243)	24,699	(4,451)	16,005	122,612	3,161	(2,710)	123,063
Net change in new exposures originated or purchased/exposures derecognized or repaid (excluding write-offs)	(26,220)	(3,588)	878	(28,930)	(50,165)	(14,218)	-	(64,383)
As at 31st December	430,982	42,255	1,572	474,810	474,639	13,096	-	487,735

The following tables show reconciliations from the opening to closing balance of gross carring values of Commitments & Contingencies relating to above impairment.

Bank / Group

Gross Carrying amount	2021				2020			
	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000	Stage 01 LKR '000	Stage 02 LKR '000	Stage 03 LKR '000	Total LKR '000
As at 01st January	158,802,185	4,435,674	1,527,770	164,765,628	156,564,928	838,551	2,911,153	160,314,632
Transfer to Stage 1	1,901,838	(1,741,313)	(160,524)	-	1,527,849	(567,165)	(960,683)	-
Transfer to Stage 2	(2,014,096)	2,638,864	(624,767)	-	(4,257,836)	4,906,275	(648,439)	-
Transfer to Stage 3	(277,387)	(32,016)	309,403	-	(1,253,194)	(36,441)	1,289,635	-
Net change in new exposures originated or purchased/exposures derecognized or repaid (excluding write-offs)	20,215,401	1,068,055	(93,944)	21,189,512	6,220,438	(705,546)	(1,063,896)	4,450,996
As at 31st December	178,627,940	6,369,263	957,937	185,955,140	158,802,185	4,435,674	1,527,770	487,735

25 DEFERRED TAXATION

Bank

As at 31 December	2021					2020			
	1/1/2021 DTL/(DTA) LKR '000	Recognised in P&L (Note 40.1) LKR '000	Recognised in OCI LKR '000	Recognised in OCI due to Rate Change LKR '000	31/12/2021 DTL/(DTA) LKR '000	1/1/2020 DTL/(DTA) LKR '000	Recognised in P&L (Note 40.1) LKR '000	Recognised in OCI LKR '000	31/12/2020 DTL/(DTA) LKR '000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	224,569	(103,041)	-	-	121,528	305,973	(81,404)	-	224,569
Accelerated depreciation allowances for tax purposes- lease rentals receivable	530,029	(290,293)	-	-	239,737	741,332	(211,303)	-	530,029
Net gains on re-measuring of financial assets at FVOCI	256,161	-	(378,537)	(36,594)	(158,970)	117,435	-	138,726	256,161
Revaluation of Land & Building	309,505	-	-	(44,215)	265,290	309,505	-	-	309,505
Share based payments	(20,334)	2,906			(17,428)	(19,373)	(962)	-	(20,334)
Retirement benefit plan - Gratuity	(241,588)	17,110	1,044	3,549	(219,885)	(197,422)	(33,402)	(10,764)	(241,588)
Impairment on loans & advances	(22,381)	(617,749)	-	-	(640,130)	(205,898)	183,517	-	(22,381)
Impairment on other financial assets	(130,492)	(162,657)	-	-	(293,149)	(35,100)	(95,391)	-	(130,492)
Operating Lease	(42,388)	(6,354)	-	-	(48,742)	-	(42,388)	-	(42,388)
Impact of first time adoption of SLFRS16 - operating lease	-	-	-	-	-	(21,380)	21,380	-	-
	863,082	(1,160,078)	(377,493)	(77,260)	(751,749)	995,074	(259,954)	127,962	863,082

Notes to the Financial Statements

25 DEFERRED TAXATION (CONTD.)

Group

As at 31 December	2021					2020			
	1/1/2021 DTL/(DTA)	Recognised in P&L (Note 40.1)	Recognised in OCI	Recognised in OCI due to Rate Change	31/12/2021 DTL/(DTA)	1/1/2020 DTL/(DTA)	Recognised in P&L (Note 40.1)	Recognised in OCI	31/12/2020 DTL/(DTA)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	224,776	(103,072)	-	-	121,704	305,023	(80,247)	-	224,776
Accelerated depreciation allowances for tax purposes- lease rentals receivable	530,029	(290,293)	-	-	239,736	741,332	(211,303)	-	530,029
Net gains on re-measuring of financial assets at FVOCI	256,161	-	(378,537)	(36,594)	(158,970)	117,435	-	138,726	256,161
Revaluation of Land & Building	478,675	-	-	(68,382)	410,293	478,675	-	-	478,675
Share based payments	(20,334)	2,905	-	-	(17,429)	(19,373)	(962)		(20,334)
Retirement benefit plan - Gratuity	(244,068)	17,147	1,451	3,653	(221,817)	(198,827)	(33,752)	(11,489)	(244,068)
Impairment on loans & advances	(24,578)	(617,436)	-	-	(642,014)	(208,095)	183,517	-	(24,578)
Impairment on other financial assets	(130,492)	(162,657)	-	-	(293,149)	(35,100)	(95,391)	-	(130,492)
Operating Lease	(42,388)	(6,714)	-	-	(49,102)	-	(42,388)	-	(42,388)
Impact of first time adoption of SLFRS16 - operating lease	-	-	-	-	-	(21,561)	21,561	-	-
	1,027,777	(1,160,116)	(377,086)	(101,323)	(610,748)	1,159,506	(258,966)	127,237	1,027,777

Deferred tax has been determined based on the effective tax rate of 24%.

Income Tax Changes

As per the Inland Revenue (Amendment) Act No. 10 of 2021 (Certified on 13 May 2021). The income tax rate applicable for the banking sector was reduced to 24% from the year of assessment 2020/21 and the over provision in respect of the prior year is;

for Bank : the deferred tax liability as at 31 December 2020 was decreased by LKR 123 Mn resulting in an increase of LKR 46 Mn in profit after tax and LKR 77 Mn increase in OCI.

for Group : the deferred tax liability as at 31 December 2020 was decreased by LKR 147 Mn resulting in an increase of LKR 46 Mn in profit after tax and LKR 101 Mn increase in OCI.

26 STATED CAPITAL

	Bank /Group 2021 Number	Bank /Group 2021 LKR '000	Bank /Group 2020 Number	Bank /Group 2020 LKR '000
Ordinary Shares - Voting				
Issued and fully paid				
As at 01 January	245,134,821	6,309,792	244,878,841	6,289,307
Conversion of Non Voting Shares to Voting Shares	-	-	255,980	20,485
As at 31 December	245,134,821	6,309,792	245,134,821	6,309,792
Ordinary Shares - Convertible Non Voting				
Issued and fully paid				
As at 01 January	38,717,051	3,098,343	38,973,031	3,118,828
Conversion of Non Voting Shares to Voting Shares	-	-	(255,980)	(20,485)
As at 31 December	38,717,051	3,098,343	38,717,051	3,098,343
Total Ordinary Shares/Stated Capital as at 31 December	283,851,872	9,408,135	283,851,872	9,408,135

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 2021 LKR '000	Bank /Group 2020 LKR '000
As at 01 January	1,561,787	1,371,853
Transfers during the year (Note 28)	320,324	189,934
As at 31 December	1,882,111	1,561,787

28 RETAINED EARNINGS

	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
As at 01 January	21,393,697	18,465,483	22,265,430	19,082,807
Total Comprehensive Income	6,406,240	3,771,007	6,695,491	4,025,416
Dividend Paid	(567,704)	(652,859)	(567,704)	(652,859)
Transfers to Reserve Fund (Note 27.2)	(320,324)	(189,934)	(320,324)	(189,934)
As at 31 December	26,911,909	21,393,697	28,072,893	22,265,430

Notes to the Financial Statements

29 OTHER RESERVES

29.1 Other Comprehensive Income (OCI) Reserve

	Bank /Group	
	2021 LKR '000	2020 LKR '000
As at 01 January	658,701	301,976
Net change in Fair value during the year	(1,621,935)	476,606
Changes in Allowance for Expected Credit Losses	44,699	18,845
Income tax relating to the above	378,537	(138,726)
Deferred Tax Effect due to Revision of Statutory Income Tax Rate	36,594	-
As at 31 December	(503,404)	658,701

29.2 Revaluation Reserve

	Bank		Group	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
As at 01 January	795,870	795,870	1,230,875	1,230,875
Revaluation Surplus during the year	-	-	-	-
Deferred Tax Effect due to Revision of Statutory Income Tax Rate	44,215	-	68,382	-
As at 31 December	840,085	795,870	1,299,257	1,230,875

30 INTEREST INCOME

	Bank		Group	
For the Year Ended 31 December	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Cash and Cash Equivalents	66,420	92,372	66,420	92,372
Financial Assets Recognized through Profit or Loss				
- Measured at fair value	222,681	263,462	222,681	263,462
Financial Assets at Amortised Cost				
- Loans and Advances to Customers	21,017,069	25,105,728	21,017,093	25,105,944
- Reverse Repurchase Agreements	144,683	175,289	144,683	175,289
- Debt Instruments	2,688,573	2,014,565	2,688,573	2,014,565
Financial Assets Measured at Fair Value Through Other Comprehensive Income	4,441,705	5,070,551	4,441,705	5,070,551
Interest Income Accrued on Impaired Financial Assets	76,103	221,562	76,103	221,562
	28,657,234	32,943,529	28,657,258	32,943,745

a Net interest income from Sri Lanka government securities

For the Year Ended 31 December	Bank /Group 2021 LKR '000	2020 LKR '000
Interest income	6,409,586	7,060,881
Less: Interest expenses	-	-
Net interest income from Sri Lanka government securities	6,409,586	7,060,881

31 INTEREST EXPENSE

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Due to banks	218,100	325,007	218,100	325,007
Financial liabilities at amortised cost				
- Due to customers	10,280,708	14,846,364	10,280,707	14,839,413
- Repurchase agreements	592,333	721,140	529,144	664,643
- Due to Debt Security Holders	1,756,164	1,673,047	1,756,164	1,673,047
- Due to Other Borrowers	1,631,609	1,591,343	1,631,609	1,591,343
- Interest Expense on Lease Liabilities	197,263	180,245	160,698	174,439
- Others	2,251	2,710	3,196	3,739
	14,678,428	19,339,856	14,579,618	19,271,631

Notes to the Financial Statements

32 NET FEE AND COMMISSION INCOME

32.1 Fees and Commission Income

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Credit Card Related Fee and Commission	3,128,221	2,671,825	3,128,221	2,671,826
Commission on Trade Finance Facilities & Remittances	999,094	680,845	999,094	680,845
Commission on Services-Loans	1,540,536	1,224,815	1,540,536	1,224,815
Commission on Services-Deposits	360,114	278,218	360,114	278,218
Other Fees	405,280	391,978	641,857	659,321
	6,433,245	5,247,681	6,669,822	5,515,025

32.2 Fees and Commission Expenses

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Brokerage Fees	(11,783)	(24,452)	(11,783)	(24,452)
Credit Card Related Fees	(478,373)	(636,787)	(478,373)	(636,787)
Other	(39,306)	(35,704)	(39,307)	(35,704)
	(529,462)	(696,943)	(529,463)	(696,943)
Net Fee and Commission Income	5,903,783	4,550,738	6,140,359	4,818,082

33 NET GAIN/ (LOSS) FROM TRADING

For the Year Ended 31 December	Bank/Group 2021 LKR '000	Bank/Group 2020 LKR '000
Foreign Exchange		
- From Banks	1,352,500	336,739
- From Other Customers	801,021	672,516
Realised Gains/(Losses) on Financial Investments at Fair Value through Profit or Loss	(3,511)	259,349
Derivative Financial Instruments	322,433	106,357
	2,472,443	1,374,961

34 NET FAIR VALUE GAINS/ (LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

For the Year Ended 31 December	Bank/Group 2021 LKR '000	Bank/Group 2020 LKR '000
Net Gains on financial assets at fair value through profit or loss	9,103	-
Net Losses on financial assets at fair value through profit or loss	-	(11,591)
	9,103	(11,591)

35 OTHER OPERATING INCOME/(LOSS) - NET

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Dividend Income	5,999	5,440	5,999	5,440
Gain/(Loss) on Sale of Property, Plant and Equipment	237	1,276	237	1,334
Gain/(Loss) on Revaluation of Foreign Exchange	(765,059)	(824,424)	(765,059)	(824,424)
Other Non-Trading Foreign Exchange	13,791	7,675	13,791	7,675
Recovery of Loans Written -Off	655,245	344,485	655,245	344,485
Others	159,690	131,469	159,690	131,469
	69,903	(334,079)	69,903	(334,021)

36 IMPAIRMENT CHARGES

For the Year Ended 31 December	Note	Bank/Group 2021 LKR '000	Bank/Group 2020 LKR '000
Financial Assets at Amortised Cost - Loans and Advances			
Stage 1	13.5	(358,476)	(75,297)
Stage 2	13.5	(1,058,113)	(278,276)
Stage 3	13.5	(1,574,206)	(3,064,831)
Financial Assets at Amortised Cost – Debt Instruments			
Stage 1	12.3	(710,708)	(321,837)
Stage 2	12.3	-	-
Stage 3	12.3	-	-
Financial Assets at Fair Value through Other Comprehensive Income – Debt Instruments			
Stage 1	29.1	(44,699)	(18,845)
Stage 2	29.1	-	-
Stage 3	29.1	-	-
Financial Assets at Amortised Cost– Others			
Stage 1	6.1	(338)	850
Stage 2		-	-
Stage 3	14.1	(8,543)	(29,704)
Contingent Liabilities & Commitments			
Stage 1	24.3	43,656	(74,531)
Stage 2	24.3	(29,159)	15,850
Stage 3	24.3	(1,572)	-
Total Impairment Loss		(3,742,158)	(3,846,621)

Following is a sensitivity analysis of Economic Factor Adjustment used in the expected credit loss calculation.

Change in Economic Factor Adjustment (EFA)	Impact on Allowance for Credit Loss 2021 LKR '000	Impact on Allowance for Credit Loss 2020 LKR '000
1%	13,983	13,106
5%	69,917	65,531
10%	139,835	131,062

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Notes to the Financial Statements

37 PERSONNEL EXPENSES

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Salaries and Bonus	3,425,751	3,327,127	3,452,031	3,353,958
Employee Benefits - Defined Contribution Plan	405,499	419,369	408,705	422,778
Employee Benefits - Defined Benefit Plan (Note 22.1)	157,769	158,269	159,502	159,874
Share Based Payments (Note 24.2)	-	3,435	-	3,435
Amortization of Staff Loan Day 1 Difference	62,834	68,192	62,834	68,192
Other Allowances	535,165	622,639	536,608	624,591
	4,587,018	4,599,031	4,619,680	4,632,828

38 OTHER OPERATING EXPENSES

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Operating Lease Expenses	93,644	89,593	93,644	89,639
Professional Fees	8,478	27,098	9,249	28,056
Auditors Fees and Expenses	9,132	9,072	10,139	10,046
Non Audit fees and Expenses to Auditors	2,568	1,620	2,568	1,620
Legal Fees	21,100	27,919	21,100	27,919
Transport	101,523	139,421	101,543	139,491
Office Administration & Establishment	3,076,429	3,060,397	3,095,249	3,082,512
	3,312,875	3,355,120	3,333,492	3,379,283

39 TAXES AND LEVIES ON FINANCIAL SERVICES

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Value Added Tax (VAT)	1,984,686	1,495,525	1,985,444	1,496,239
	1,984,686	1,495,525	1,985,444	1,496,239

40 INCOME TAX EXPENSE

40.1 Amount Recognized in Profit or Loss

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
The component of income tax expense for years ended 31 December 2021 and 2020 are ;				
Current Tax Expense				
Current Income Tax on Profit for the Year	3,208,959	2,195,429	3,260,683	2,262,825
Over Provision in respect of Prior Years	(365,035)	-	(374,222)	-
Deferred Tax Expense				
Charge for Deferred Tax (Note 25)	(1,160,078)	(259,954)	(1,160,116)	(258,966)
	1,683,846	1,935,475	1,726,345	2,003,859
Effective Income Tax Rate	20.81%	33.75%	20.50%	33.07%

40.2 Reconciliation of Effective Tax Rate

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 2021 and 2020 is as follows;

For the Year Ended 31 December	Bank 2021 %	Bank 2021 LKR '000	Bank 2020 %	Bank 2020 LKR '000	Group 2021 %	Group 2021 LKR '000	Group 2020 %	Group 2020 LKR '000
Profit before Income Tax	-	8,090,329	-	5,734,159	-	8,419,872	-	6,058,818
Tax using the corporate tax rate	24.00	1,941,679	28.00	1,605,565	24.00	2,020,769	28.00	1,696,469
Add : Disallowable Expenses	26.36	2,132,351	46.09	2,642,718	25.00	2,105,074	43.25	2,620,594
Less: Allowable Expenses	(20.65)	(1,670,705)	(38.89)	(2,230,011)	(19.84)	(1,670,832)	(36.81)	(2,230,407)
Exempt Income	(4.38)	(354,444)	(1.44)	(82,797)	(4.21)	(354,444)	(1.37)	(82,797)
	25.33	2,048,881	33.75	1,935,475	24.95	2,100,567	33.07	2,003,859
Over Provision in prior years	(4.51)	(365,035)	-	-	(4.44)	(374,222)	-	-
Income Tax expense [Note 40.1]	20.81	1,683,846	33.75	1,935,475	20.50	1,726,345	33.07	2,003,859

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.

Notes to the Financial Statements

41 BASIC / DILUTED EARNINGS PER SHARE

41.1 Earnings per Share - Basic / Diluted

For the Year Ended 31 December	Bank 2021	Bank 2020	Group 2021	Group 2020
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (LKR '000)	6,406,483	3,798,684	6,693,529	4,054,959
No of Ordinary Shares Used as the Denominator:				
Weighted Average Number of Ordinary Shares (Note 41.2)	301,477,841	301,477,841	301,477,841	301,477,841
Basic / Diluted Earnings per Share (LKR)	21.25	12.60	22.20	13.45

41.2 Weighted Average Number of Ordinary Shares

Except for the scrip dividend 2021 (Note 50 - Event after the reporting date), 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 2021 LKR '000	Bank /Group 2020 LKR '000
Dividends on Ordinary Voting Shares:		
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
Dividends on Ordinary Non-Voting Shares:		
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
	567,704	652,859

*Dividends for the years of 2020 and 2019 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 2021 LKR '000	2020 LKR '000
Dividends on Ordinary Voting Shares:		
First and Final dividend for 2021: LKR 3.50 per share	857,972	-
First and Final dividend for 2020: LKR 2.00 per share	-	490,270
Dividends on Ordinary Non-Voting Shares:		
First and Final dividend for 2021: LKR 3.50 per share	135,510	-
First and Final dividend for 2020: LKR 2.00 per share	-	77,434
Total dividend / declared	993,482	567,704

Proposed Dividend for the Year 2021 will be paid in the form of Scrip. Scrip Dividend conversion ratios are given in the note 42.3

42.3 Scrip Dividend Conversion Ratio

Scrip dividend is declared by the Board of Directors in the proportion of 01 share for every;

As at 31 December	Bank/ Group 2021	2020
Ordinary Voting Shares (Number)	16.02857	-
Convertible Non-Voting Shares (Number)	16.60000	-

43 CASH FLOW INFORMATION

43.1 (Increase)/Decrease in Operating Assets

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Reverse Repurchase Agreements	2,086,600	8,733,717	2,086,600	8,733,717
Financial Assets at Fair Value through Profit or Loss	(3,941,847)	(1,711,320)	(3,941,847)	(1,711,320)
Financial Assets at Amortized Cost - Debt Instruments	(319,392)	(7,745,158)	(319,392)	(7,745,158)
Financial Assets at Fair Value through Other Comprehensive Income	4,912,088	(34,732,208)	4,912,088	(34,732,208)
Financial Assets at Amortized Cost - Loans & Advances	(41,413,929)	14,714,578	(41,413,628)	14,716,622
Other Assets	1,409,312	(158,079)	1,402,440	(148,588)
	(37,267,168)	(20,898,470)	(37,273,739)	(20,886,935)

43.2 Increase/(Decrease) in Operating Liabilities

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Repurchase Agreements	88,102	(136,297)	(212,285)	(469,480)
Financial Liabilities at Amortized Cost - Due to Depositors	28,542,503	14,853,477	28,548,617	14,852,192
Other Liabilities	1,253,133	(80,831)	1,255,027	(84,413)
	29,883,738	14,636,349	29,591,359	14,298,299

Notes to the Financial Statements

43 CASH FLOW INFORMATION (CONTD.)

43.3 Other Non Cash Items included in Profit Before Tax

For the Year Ended 31 December	Bank 2021 LKR '000	Bank 2020 LKR '000	Group 2021 LKR '000	Group 2020 LKR '000
Depreciation of Property, Plant and Equipment (Note 16)	394,030	448,893	436,260	490,988
Depreciation of ROU Assets (Note 17)	483,961	502,757	393,435	412,985
Amortization of Intangible Assets (Note 18)	338,913	379,713	339,037	379,899
(Gain)/Loss on Fair Valuation of Financial Assets at Fair Value through Profit or Loss (Note 34)	(9,103)	11,591	(9,103)	11,591
Unrealized (Gain)/Loss on Derivative Financial Instruments	(318,331)	(108,091)	(318,331)	(108,091)
Interest Income/Expense on Loans and Deposits	422,463	2,300,124	385,898	2,294,316
Interest Income Accrued on Impaired Financial Assets	(76,103)	(221,562)	(76,103)	(221,562)
	1,235,830	3,313,425	1,151,093	3,260,126

43.4 Changes in Liabilities Arising from Financing Activities

	Bank /Group 01 January 2021 LKR '000	Cash Flows LKR '000	Non - Cash Flows LKR '000	31 December 2021 LKR '000
Development Finance Institutions (DFI)	15,374,122	6,598,821	12,451	21,985,394
Refinance Borrowings	4,962,647	974,006	(138,380)	5,798,273
Financial Institutions	6,235,409	(600,000)	484,269	6,119,679
Rated, Unsecured, Redeemable Debentures	13,261,973	(1,000,000)	90,901	12,352,873
Total Debt Issued and Other Borrowed Funds	39,834,151	5,972,827	449,241	46,256,219
Money Market Borrowings	846,728	659,673		1,506,401
Total	40,680,879	6,632,500	449,241	47,762,620

	Bank /Group			
	01 January 2020 LKR '000	Cash Flows LKR '000	Non - Cash Flows LKR '000	31 December 2020 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
Total Debt Issued and Other Borrowed Funds	38,927,604	622,934	283,613	39,834,151
Money Market Borrowings	5,836,777	(4,990,049)	-	846,728
Total	44,764,382	(4,367,115)	283,613	40,680,879

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	Bank /Group	
	2021 LKR '000	2020 LKR '000
Key Management Personnel Benefits	77,311	74,852
Post Employment Benefits	6,683	9,347
	83,994	84,199

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 288,271 (2020 - 200,520) share appreciation rights.

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 (KMP) and their Close Family Members (CFM).

			Maximum Balances	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Items in the Statement of Financial Position				
Assets				
Loans & Advances	462	2,472	2,839	5,261
Credit Cards	1,479	2,978	3,619	3,341
Liabilities				
Due to Customers	232,532	173,758	243,355	238,985
Other Liabilities	-	58	-	-
Equity				
Dividends (Net)	21	136	-	-
Commitments				
Undrawn Facilities	7,296	6,347	-	-
Items in Statement of Profit or Loss				
Interest Income Earned	212	346	-	-
Interest Expenses Paid	9,861	8,470	-	-
Other Income Earned	273	399	-	-

(c)Transactions, Arrangements and agreements involving entities which are controlled, and/or jointly controlled by the KMP or their CFM.

There were no transactions carried out by the Bank with the entities in which KMPs and CFMs have control or joint control for the year ended 31 December 2021 (2020 - nil).

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 333.67 Mn (2020 - LKR 337.65 Mn) to the Fund during the year.

As at 31 December 2021, the Fund has invested a sum of LKR 409 Mn (2020 - LKR 1,368.97 Mn) in Financial Instruments (Repo,Fixed Deposits and Debentures) of the Bank. Also, as at 31 December 2021, the fund has maintained a sum of LKR 10,933/- (2020 - LKR 58/-) in current/savings accounts of the bank.

During the year, the Bank has incurred a sum of LKR 75.13 Mn (2020 - LKR 119.56 Mn) as interest expense to the Fund out of which a sum of LKR 12.25 Mn (2019 - LKR 61.57 Mn) is payable as of 31 December 2021.

44 RELATED PARTY DISCLOSURES (CONTD.)

44.3 Transactions with Related Entities

	Subsidiaries *				Significant Investors **				Significant Investor Related Entities ***			
			Maximum Balances				Maximum Balances				Maximum Balances	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Items in the Statement of Financial Position												
Assets												
Loans & Advances	-	-	-	-	-	-	-	572,652	2,758,202	232,805	3,845,335	739,939
Corporate Credit Cards	-	-	-	-	824	979	1,192	979	-	-	-	174
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	1	-	-
Other Assets	-	-	-	-	-	-	-	-	35,916	3,290	-	-
Liabilities												
Due to Customers	3,643	9,756	69,874	360,359	3,012,040	24,425	3,012,040	1,344,854	1,814,103	458,270	1,843,819	631,264
Repurchase & Other Borrowings	1,470,536	1,170,149	1,494,912	1,170,149	1,400,000	895,328	2,670,000	3,885,004	319,387	374,504	513,718	375,488
Debenture Issued	-	-	-	-	-	-	-	-	1,176,700	1,178,235	1,176,700	1,178,235
Derivative Financial Liabilities	-	-	-	-	-	-	-	-	-	3,593	-	-
Other Liabilities	-	-	-	-	1,351	2,804	-	-	713,695	27,609	713,695	27,609
Equity												
Dividends (Net)	-	-	-	-	391,438	450,154	-	-	-	-	-	-
Commitments												
Undrawn Facilities	-	-	-	-	1,985,621	1,878,500	-	-	3,588,444	996,571	-	-
Letter of Credit / Guarantees	-	-	-	-	30,894	137,765	-	-	4,053,792	784,509	-	-
Forward Foreign Exchange Contracts	-	-	-	-	-	-	-	-	-	300,960	-	-
Items in Income Statement												
Interest Income Earned	-	-	-	-	27,071	11,733	-	-	254,137	23,186	-	-
Interest Expenses Paid	63,188	63,446	-	-	52,706	230,988	-	-	160,665	44,432	-	-
Other Income Earned	7,654	8,074	-	-	2,352	2,471	-	-	312,924	28,197	-	-
Expenses Paid	102,664	101,656	-	-	18,580	19,772	-	-	115,890	52,084	-	-

In addition to the above , the bank has carried out various promotional activities with related entities during the year.

Waldock Mackenzie Limited - Subsidiary manages portfolio of certain Post-Employement Benefit Plans of related party entities and earned a fee of LKR 2.54 Mn for the year ended 31 December 2021 (2020 - LKR 2.56Mn). The maximum value of portfolio managed at any time during the year was LKR 1,725.07 Mn (2020 - LKR 1,748.21Mn). 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 2021 (2020 - Nil)

* Subsidiaries of the Group includes Waldock 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.

Notes to the Financial Statements

45 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2021	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
Assets						
Cash and Cash Equivalents	13,427,451	-	13,427,451	13,427,531	-	13,427,531
Balances with Central Bank of Sri Lanka	6,469,367	445,830	6,915,197	6,469,367	445,830	6,915,197
Reverse Repurchase Agreements	3,001,370	-	3,001,370	3,001,370	-	3,001,370
Derivative Financial Instruments	472,864	-	472,864	472,864	-	472,864
Financial Assets - Recognised through Profit or Loss	6,150,508	-	6,150,508	6,150,508	-	6,150,508
Financial Assets at Fair Value through Other Comprehensive Income	67,503,862	16,898	67,520,760	67,503,862	16,898	67,520,760
Financial Assets at Amortised Cost - Debt Instruments	8,457,687	17,682,611	26,140,298	8,457,687	17,682,611	26,140,298
Financial Assets at Amortised Cost – Loans and Advances	158,958,634	88,482,794	247,441,428	158,958,634	88,482,923	247,441,557
Other Assets	814,634	1,198,926	2,013,560	821,271	1,225,076	2,046,347
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	2,330,679	2,330,679	-	3,298,248	3,298,248
Right of Use (ROU) Asset	410,451	1,212,374	1,622,825	319,925	1,031,320	1,351,245
Defferred Tax Assets	-	751,749	751,749	-	610,748	610,748
Intangible Assets	-	1,174,468	1,174,468	-	1,175,204	1,175,204
Total Assets	265,666,828	113,975,039	379,641,867	265,583,019	113,968,858	379,551,877
Liabilities						
Due to Banks	2,016,105	-	2,016,105	2,016,105	-	2,016,105
Derivative Financial Instruments	165,699	-	165,699	165,699	-	165,699
Financial liabilities at Amortised Cost			-			-
Due to Depositors	253,367,035	14,624,872	267,991,907	253,363,393	14,624,871	267,988,264
Repurchase Agreements	10,899,766	-	10,899,766	9,429,230	-	9,429,230
Due to Other Borrowers	14,023,956	21,577,400	35,601,356	13,939,409	21,365,940	35,305,349
Debt Securities Issued	358,943	11,993,930	12,352,873	358,943	11,993,930	12,352,873
Retirement Benefit Obligations	106,276	725,517	831,793	107,578	734,407	841,985
Current Tax Liabilities	2,440,631	-	2,440,631	2,460,712	-	2,460,712
Other Liabilities	7,172,505	1,630,396	8,802,901	7,189,360	1,643,307	8,832,667
Total Liabilities	290,550,914	50,552,114	341,103,031	289,030,429	50,362,455	339,392,884
Net	(24,884,087)	63,422,923	38,538,836	(23,447,409)	63,606,403	40,158,993

45 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 December 2020	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
Assets						
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
Total Assets	225,244,320	112,389,988	337,634,308	225,259,992	112,731,324	337,991,316
Liabilities						
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
Total Liabilities	268,480,288	35,335,830	303,816,118	267,317,021	35,549,367	302,866,388
Net	(43,235,968)	77,054,158	33,818,190	(42,057,029)	77,181,957	35,124,928

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/Group

As at 31 December	2021					2020				
		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
Financial Assets Measured at Fair Value										
Derivative Financial Instruments										
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-21	-	472,864	-	472,864	31-Dec-20	-	239,535	-	239,535
Financial Assets at Fair Value through Profit or Loss										
Government Treasury Bills	31-Dec-21	6,150,508	-	-	6,150,508	31-Dec-20	987,733	-	-	987,733
Government Treasury Bonds		-	-	-	-	31-Dec-20	684,759	744,301	-	1,429,059
Financial Assets at Fair Value through Other Comprehensive Income										
Debt Instruments										
Government Treasury Bills	31-Dec-21	40,595,858	-	-	40,595,858	31-Dec-20	50,462,433	-	-	50,462,433
Government Treasury Bonds	31-Dec-21	16,431,270	10,038,597	-	26,469,867	31-Dec-20	15,451,185	6,850,867	-	22,302,053
Sri Lanka Sovereign Bonds	31-Dec-21	438,136	-	-	438,136	31-Dec-20	477,199	-	-	477,199
Equity Instruments										
Unquoted Equity Shares	31-Dec-21	-	-	16,898	16,898	31-Dec-20	-	-	16,150	16,150
Total Financial Assets Measured at Fair Value		63,615,772	10,511,461	16,898	74,144,132		68,063,309	7,834,703	16,150	75,914,162
Financial Liabilities										
Derivative Financial Instruments										
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-21	-	165,699	-	165,699	31-Dec-20	-	250,700	-	250,700
Total Financial Liabilities Measured at Fair Value		-	165,699		165,699		-	250,700	-	250,700

As at 31 December	2021					2020				
		Fair Value Measurement Using					Fair Value Measurement Using			
	Date of Valuation	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Date of Valuation	Quoted Prices in Active Market (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
Bank										
Non Financial Assets Measured at Fair Value										
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
Total Non Financial Assets Measured at Fair Value		-	-	1,733,630	1,733,630		-	-	1,733,630	1,733,630
Group										
Non Financial Assets Measured at Fair Value										
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
Total Non Financial Assets Measured at Fair Value		-	-	2,624,678	2,624,678		-	-	2,624,678	2,624,678

46.1.1 Movements in Level 3 financial instruments measured at fair value

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	
	2021	2020
	LKR '000	LKR '000
As at 01 January	16,150	13,880
Investments made during the year	-	1,875
Change in value due to exchange rate fluctuation	748	395
As at 31 December	16,898	16,150

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 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 2021	Freehold Buildings 2021	Freehold Land 2020	Freehold Buildings 2020
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	1,578,900	154,227	1,578,900	154,730
Additions during the year	-	-	-	4,470
Depreciation charge for the year	-	(5,215)	-	(4,973)
	1,578,900	149,012	1,578,900	154,227

46. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

46.1.1 Movements in Level 3 financial instruments measured at fair value (Contd.)

Group	Non Financial Assets Measured at Level 3			
	Freehold Land 2021 LKR '000	Freehold Buildings 2021 LKR '000	Freehold Land 2020 LKR '000	Freehold Buildings 2020 LKR '000
As at 01 January	1,578,900	1,011,078	1,578,900	1,045,778
Additions during the year	-	-	-	4,470
Depreciation charge for the year	-	(39,412)	-	(39,170)
As at 31 December	1,578,900	971,666	1,578,900	1,011,078

Unobservable Inputs used in Measuring Fair Value of Freehold Land and Buildings

The table below sets out information about significant unobservable inputs used in measuring 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 (Level 3)
				Fair Value as at 31.12.2021 LKR '000	Fair Value as at 31.12.2020 LKR '000	Fair Value as at 31.12.2021 LKR '000	Fair Value as at 31.12.2020 LKR '000			
No 76, York Street, Fort,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			

Fair Value measurement sensitivity to unobservable inputs: 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.

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 one year or less), 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	Financial Liabilities
Cash and Cash Equivalents	Due to banks
Balances with Central Bank of Sri Lanka	Repurchase agreements
Reverse Repurchase Agreements	
Sri Lanka Development Bonds	

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.

46 FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

46.2 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.

Bank	2021					2020				
As at 31 December		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
Financial Assets										
Debt Instruments at Amortised Cost	26,140,298	3,126,725	23,223,889	-	26,350,614	26,648,083	5,570,449	22,668,407	-	28,238,856
	26,140,298	3,126,725	23,223,889	-	26,350,614	26,648,083	5,570,449	22,668,407	-	28,238,856
Loans and Advances to Customers										
Corporate Loans	100,943,558	-	100,565,101	-	100,565,101	76,630,926	-	75,631,565	-	75,631,565
Commercial and Consumer Lending	113,441,507	-	115,275,235	-	115,275,235	95,070,111	-	94,896,297	-	94,896,297
Housing Loans	5,981,614	-	5,989,450	-	5,989,450	4,503,075	-	5,005,907	-	5,005,907
Leases	34,828,770	-	34,035,342	-	34,035,342	39,303,114	-	41,302,905	-	41,302,905
Staff Loans	3,818,727	-	3,009,963	-	3,009,963	3,960,179	-	3,225,756	-	3,225,756
	259,014,175	-	258,875,091	-	258,875,091	219,467,405	-	220,062,430	-	220,062,430
Total Financial Assets	285,154,473	3,126,725	282,098,980	-	285,225,705	246,115,488	5,570,449	242,730,837	-	248,301,285
Financial Liabilities										
Due to Customers	267,991,907	-	267,809,573	-	267,809,573	240,584,022	-	241,167,303	-	241,167,303
Due to Other Borrowers	35,601,356	-	36,275,429	-	36,275,429	28,040,126	-	28,861,341	-	28,861,341
Debt Securities Issued	12,352,873	-	12,402,989	-	12,402,989	13,261,973	-	14,674,006	-	14,674,006
Total Financial Liabilities	315,946,136	-	316,487,991	-	316,487,991	281,886,121	-	284,702,650	-	284,702,650

Group As at 31 December	2021 Fair Value Measurement Using Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000	2020 Fair Value Measurement Using Carrying amount LKR '000	Quoted Prices in Active Markets (Level 1) LKR '000	Significant Observable Inputs (Level 2) LKR '000	Significant Unobservable Inputs (Level 3) LKR '000	Total LKR '000
Financial Assets										
Debt Instruments at Amortised Cost	26,140,298	3,126,725	23,223,889	-	26,350,614	26,648,083	5,570,449	22,668,407	-	28,238,856
	26,140,298	3,126,725	23,223,889	-	26,350,614	26,648,083	5,570,449	22,668,407	-	28,238,856
Loans and Advances to Customers										
Corporate Loans	100,943,558	-	100,565,101	-	100,565,101	76,630,926	-	75,631,565	-	75,631,565
Commercial and Consumer Lending	113,441,507	-	115,275,235	-	115,275,235	95,070,423	-	94,896,609	-	94,896,609
Housing Loans	5,981,614	-	5,989,450	-	5,989,450	4,503,075	-	5,005,907	-	5,005,907
Leases	34,828,770	-	34,035,342	-	34,035,342	39,303,114	-	41,302,905	-	41,302,905
Staff Loans	3,818,727	-	3,009,963	-	3,009,963	3,960,179	-	3,225,756	-	3,225,756
	259,014,175	-	258,875,091	-	258,875,091	219,467,717	-	220,062,742	-	220,062,742
Total Financial Assets	285,154,473	3,126,725	282,098,980	-	285,225,707	246,115,800	5,570,449	242,731,149	-	248,301,598
Financial Liabilities										
Due to Customers	267,988,264	-	267,805,930	-	267,805,930	240,574,266	-	241,157,546	-	241,157,546
Due to Other Borrowers	35,305,349	-	36,275,429	-	36,275,429	28,040,126	-	28,861,341	-	28,861,341
Debt Securities Issued	12,352,873	-	12,402,989	-	12,402,989	13,261,973	-	14,674,006	-	14,674,006
Total Financial Liabilities	315,646,486	-	316,484,348	-	316,484,348	281,876,365	-	284,692,893	-	284,692,893

Notes to the Financial Statements

47. FINANCIAL RISK MANAGEMENT

47.1 Introduction

Risks are inherent in the Bank's activities, but are 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, Report and Review

- Risk management standards, measurement tools & models
- 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.

The impact of COVID - 19 on the business/operations and risk management of the Bank

The continued 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 lockdowns during 2020 were once again impeded by the emergence of another wave of the pandemic during the second quarter of 2021. However, the bank is cautiously optimistic about the positive momentum evidenced in both control of the pandemic and economic activities after the successful vaccination program.

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 extended relief measures 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 take 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 Significant Increase in Credit Risk (SICR). 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 SICR indicators and exposures above Rupees Hundred Million are assessed against the complete list of SICR indicators. If the Bank finds such customers are subject to Significant Increase in Credit Risk, those customers are individually impaired taking in to account the estimated value of future cash flows.

Notes to the Financial Statements

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 13.1

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 continued with enhanced credit risk management processes to cover whether a Significant Increase in Credit Risk (SICR) has taken place for customers operating in industries 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, were 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.

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.

Qualities of Financial Assets are categorized into five categories as described below.

Credit Quality Category	Definition	Description
High Grade	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
Investment Grade (A+& 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
Intermediary Grade (C+ and C)	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.
Speculative Grade (C- and D)	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
Still under Evaluation	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	
		2021	2020
	%	LKR '000	LKR '000
Investment Grade			
A	Less than 1%	72,139,316	50,646,307
B	Less than 1.5%	119,392,999	94,773,886
Intermediary Grade			
C + and C	Less than 2.5%	6,087,972	10,745,082
Speculative Grade			
C-	Less than 5.5%	8,217,280	3,891,729
D	Minimum of 13%	3,948,148	6,552,523
Past Due - Rated Customers			
	Less than 30 Days	5,897,242	6,221,655
	30 - 90 Days	4,538,732	4,780,321
	More than 90 Days	5,044,364	6,501,258
Past Due - Fully Secured by Cash		1,239,189	1,622,478
Individually Impaired - Rated Customers		15,554,119	14,554,181
Sum of Amortized Cost of Rated Customers		242,059,360	200,289,420

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. 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. Housing Loans and cash secured lending are the significant security backed

The total financial instruments of the Bank represent 99.7% of the Group. Hence details are given only for the Bank.

Notes to the Financial Statements

Credit Quality by class of Financial Assets

Bank - 31 December 2021	Neither past due nor impaired							
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade	Customers whose credit rating is not yet finalized	Past due but not impaired	Individually impaired	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	13,427,451	-	-	-	-	-	-	13,427,451
Balances with Central Bank of Sri Lanka	6,915,197	-	-	-	-	-	-	6,915,197
Reverse Repurchase Agreements	-	-	-	-	3,001,370	-	-	3,001,370
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	470,029	-	-	-	2,834	-	-	472,863
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	6,150,508	-	-	-	-	-	-	6,150,508
Financial Assets at Fair Value through Other Comprehensive Income								
Government Treasury Bills and Bonds	67,065,725	-	-	-	-	-	-	67,065,725
Sri Lanka Sovereign Bonds	438,136	-	-	-	-	-	-	438,136
Unquoted Equity Shares	-	-	-	-	16,898	-	-	16,898
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	13,770,272	-	-	-	-	-	-	13,770,272
Sri Lanka Development Bonds	8,523,786	-	-	-	-	-	-	8,523,786
Sri Lanka Sovereign Bonds	4,141,009	-	-	-	-	-	-	4,141,009
Quoted Debentures	-	514,240	-	-	255,661	-	-	769,901
Financial Assets at Amortised Cost – Loans and Advances (Gross)	-	191,532,315	6,087,972	12,165,427	12,859,014	20,815,328	15,554,119	259,014,175
Commitment and Contingencies	29,266,952	157,932,123	2,771,611	3,488,612	17,930,948	5,967,047	-	217,357,294
Total	150,169,065	349,978,678	8,859,584	15,654,040	34,066,724	26,782,375	15,554,119	601,064,585

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 LKR 20.8Bn categorized under "past due but not individually impaired ", LKR 8.0n (39%) is in Stage 1, LKR 4.7Bn (22%) is in Stage 2 and LKR 8.1Bn (39%) is in Stage 3.

Credit Quality by class of Financial Assets

Bank - 31 December 2020	Neither past due nor impaired					Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade	Customers whose credit rating is not yet finalized			
	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
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	236,526	2,162	-	-	848	-	-	239,535
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	2,416,792	-	-	-	-	-	-	2,416,792
Financial Assets at Fair Value through Other Comprehensive Income								
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
Financial Assets - Held to Maturity								
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
Financial Assets at Amortised Cost – Loans and Advances (Gross)	-	145,420,193	10,745,082	10,444,329	11,576,274	26,661,086	14,620,440	219,467,404
Commitment and contingencies	29,815,061	119,649,087	3,922,100	4,304,688	36,960,821	2,578,331	-	197,230,088
Total	144,539,979	265,585,681	14,667,181	14,749,017	52,643,104	29,239,417	14,620,440	536,044,820

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 LKR 26.6Bn categorized under "past due but not individually impaired ", LKR 11.5Bn (41%) is in Stage 1, LKR 5.1Bn (20%) is in Stage 2 and LKR 10Bn (39%) is in Stage 3.All individually impaired loans are Stage 3 assets.

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.

Fair value of Collateral and Credit Enhancement Held

Bank - 31 December 2021	Maximum Exposure to Credit Risk	Cash	Government Securities	Bank Guarantees	Property Management	Equity	Movable Property	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	13,427,451	9,345,250	-	-	-	-	-	-	-	-	9,345,250	4,082,201
Balances with Central Bank of Sri Lanka	6,915,197	-	-	-	-	-	-	-	-	-	-	6,915,197
Reverse Repurchase Agreements	3,001,370	-	3,357,910	-	-	-	-	-	-	(356,540)	3,001,370	-
Derivative Financial Instruments	472,864	-	-	-	-	-	-	-	-	-	-	472,864
Financial Assets - Recognised through Profit or Loss	6,150,508	-	-	-	-	-	-	-	-	-	-	6,150,508
Financial Assets at Fair Value through Other Comprehensive Income	67,520,760	-	-	-	-	-	-	-	-	-	-	67,520,760
Financial Assets at Amortised Cost	26,140,298	-	-	-	-	-	-	-	-	-	-	26,140,298
Financial Assets at Amortised Cost – Loans and Advances (Gross)	259,014,175	29,461,104	-	-	37,326,736	5,503,347	91,823,832	391,675	17,194,182	90,382,789	91,318,088	167,696,087
Financial Guarantees	2,762,783	-	-	7,894	-	-	-	-	-	-	7,894	2,754,889
Letters of Credit	15,208,196	-	-	-	-	-	-	-	1,148,170	-	1,148,170	14,060,026
Other Commitments	199,386,315	-	-	428,380	-	-	-	-	-	-	12,534,016	186,852,299
	599,999,916	38,806,354	3,357,910	436,274	37,326,736	5,503,347	91,823,832	391,675	18,342,352	90,026,249	117,354,788	482,645,128

The bank doesn't make Expected Credit Loss provisions for customers fully collatarlized by cash and government securities denominated in Sri Lankan Rupees.The market values of collataralised assets were not subject to any significant deterioration within the period which requires a special attention. During the normal course of business, operating within the general legal provisions available for a commercial bank, the bank aquires the possession of collataralized assets when the contractual payments are not honoured by the customer. As a policy, the bank does not consider such repossessed assets as its own assets. The bank's policy is to sell those assets publicly in a transparent manner to recover the maximum possible market value.

Fair value of Collateral and Credit Enhancement Held

Bank - 31 December 2020	Maximum Exposure to Credit Risk	Cash	Government Securities	Bank Gurantees	Property Management	Equity	Movable Property	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	8,422,390	-	-	-	-	-	-	-	-	8,422,390	722,149
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)	219,467,404	27,402,681	-	-	36,476,597	2,725,723	96,080,676	417,237	13,040,623	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	35,825,071	5,639,433	387,817	36,476,597	2,725,723	96,080,676	417,237	13,368,226	84,479,592	115,987,915	416,331,373

The below Table provides an analysis of the current fair values of collateral held and credit enhancements for stage 3 Assets

Type of Collateral or Credit Enhancement	2021			2020		
	Surplus Collateral LKR'000	Net Collateral LKR'000	Net Exposure LKR'000	Surplus Collateral LKR'000	Net Collateral LKR'000	Net Exposure LKR'000
Stage 3 Loans & Advances	5,852,056	7,125,116	7,877,973	7,946,587	11,197,546	13,378,071

The bank doesn't make Expected Credit Loss provisions for customers fully collatarlized by cash and government securities denominated in Sri Lankan Rupees. The market values of collataralised assets were not subject to any significant deterioration within the period which requires a special attention. During the normal course of business, operating within the general legal provisions available for a commercial bank, the bank aquires the possession of collataralized assets when the contractual payments are not honoured by the customer. As a policy, the bank does not consider such repossessed assets as its own assets. The bank's policy is to sell those assets publicly in a transparent manner to recover the maximum possible market value.

Notes to the Financial Statements

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 2021	Agriculture	Ancillary Services	Banking & Finance	Construction & Real Estate	Consumer Durables & Disposables	Diversified	Food & Beverages	Health Care	Industries	Information Technology & Telecommuni -cation	Other	Travel & Transport	Fully Secured by Cash	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	LKR'000
Cash and Cash Equivalents	-	-	13,427,451	-	-	-	-	-	-	-	-	-	-	13,427,451
Balances with Central Bank of Sri Lanka	-	-	6,915,197	-	-	-	-	-	-	-	-	-	-	6,915,197
Reverse Repurchase Agreements	-	-	3,001,370	-	-	-	-	-	-	-	-	-	-	3,001,370
Derivative Financial Instruments														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	472,863	-	-	-	-	-	-	-	-	-	-	472,863
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	6,150,508	-	-	-	-	-	-	-	-	-	-	6,150,508
Financial Assets at Fair Value through Other Comprehensive Income														
Government Treasury Bills and Bonds	-	-	67,065,725	-	-	-	-	-	-	-	-	-	-	67,065,725
Sri Lanka Sovereign Bonds	-	-	438,136	-	-	-	-	-	-	-	-	-	-	438,136
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	16,150	-	-	16,150
Financial Assets at Amortised Cost														
Government Treasury Bills and Bonds	-	-	13,770,272	-	-	-	-	-	-	-	-	-	-	13,770,272
Sri Lanka Development Bonds	-	-	8,523,786	-	-	-	-	-	-	-	-	-	-	8,523,786
Sri Lanka Sovereign Bonds		-	4,141,009	-	-	-	-	-	-	-	-	-	-	4,141,009
Quoted Debentures	-	-	769,901	-	-	-	-	-	-	-	-	-	-	769,901
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,064,670)
Financial Assets at Amortized Cost - Loans and Advances	38,591,628	23,063,708	25,075,296	21,360,040	13,413,776	13,995,862	10,108,889	9,536,893	49,392,977	9,076,438	7,417,370	20,865,147	17,116,151	259,014,175
Impairment for Loans and Advances														(11,027,804)
	38,591,628	23,063,708	149,751,514	21,360,040	13,413,776	13,995,862	10,108,889	9,536,893	49,392,977	9,076,438	7,433,520	20,865,147	17,116,151	371,614,069

Analysis of Risk Concentration

Bank - 31 December 2020	Agriculture	Ancillary Services	Banking & Finance	Construction & Real Estate	Consumer Durables & Disposables	Diversified	Food & Beverages	Health Care	Industries	Information Technology & Telecommuni -cation	Other	Travel & Transport	Fully Secured by Cash	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	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
Derivative Financial Instruments														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	238,463	150	43	368	-	-	512	-	-	-	-	239,535
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	2,416,792	-	-	-	-	-	-	-	-	-	-	2,416,792
Financial Assets at Fair Value through Other Comprehensive Income														
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
Financial Assets at Amortised Cost														
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	-	-	-	-	-	-	-	-	-	-	-	-	-	(353,962)
Financial Assets at Amortized Cost - Loans and Advances	33,587,804	22,581,278	15,800,207	20,386,381	8,135,066	14,714,389	9,180,401	8,769,973	38,943,334	6,141,886	8,162,334	20,528,484	12,535,867	219,467,404
Impairment for Loans and Advances														(8,577,159)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	33,587,804	22,581,278	135,130,313	20,386,531	8,135,109	14,714,757	9,180,401	8,769,973	38,943,846	6,141,886	8,178,484	20,528,484	12,535,867	329,883,612

Geographical Distribution of Loans & Advances

The Western Province has recorded a higher percentage of lending based on geographical distribution of the Bank's lending portfolio. It has accounted for 87% of total advances portfolio of the Bank as at December 31, 2021. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilised to facilitate industries scattered around the country. For example, most of the large corporates which have their main offices in the Western Province but engaged in island-wide operations are being accommodated by the Bank's branch network.

Bank 31 December 2021	Central	Eastern	North Central	North Western	Northern	Sabaragamuwa	Southern	Uva	Western	Total
Gross Loans &Advances	5,436,083	1,676,305	3,774,083	8,142,693	2,942,088	2,020,425	8,703,413	1,278,682	225,040,402	259,014,175

Bank 31 December 2020	Central	Eastern	North Central	North Western	Northern	Sabaragamuwa	Southern	Uva	Western	Total
Gross Loans &Advances	4,535,932	1,419,096	3,069,340	6,582,000	2,636,324	1,878,239	7,612,688	771,498	190,962,288	219,467,404

Notes to the Financial Statements

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 management 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 2020. 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	2021		2020	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	32.82%	29.67%	38.79%	30.75%

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 4% (2020 – 2%) 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 macroeconomic 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.

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 2021 under the flow approach.

Bank - As at 31 December 2021	On demand (Less than 15 days)	16 days to 3 month	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Cash and Cash Equivalents	13,427,985	-	-	-	-	13,427,985
Balances with Central Bank of Sri Lanka	3,246,795	1,206,404	2,018,388	443,549	103	6,915,239
Reverse Repurchase Agreements	3,003,837	-	-	-	-	3,003,837
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	-	5,266,507	1,000,000	-	-	6,266,507
Financial Assets at Fair Value through Other Comprehensive Income						
Government Debt Securities - Treasury Bills and Bonds	5,427,411	17,250,518	25,722,535	22,398,592	2,684,361	73,483,417
Unquoted Equity Shares	-	-	-	-	16,898	16,898
Financial Assets at Amortised Cost						
Government Debt Securities - Treasury Bills and Bonds	205,582	355,072	2,147,367	10,511,411	7,179,464	20,398,896
Other Financial Assets	15,275	5,068,947	4,234,164	6,161,888	-	15,480,273
Financial Assets at Amortised Cost – Loans and Advances	99,398,310	44,782,278	44,503,109	83,384,691	12,421,542	284,489,932
Total Undiscounted Financial Assets	124,725,196	73,929,725	79,625,562	122,900,131	22,302,369	423,482,983
Financial Liabilities						
Due to Banks	509,704	1,523,082	-	-	-	2,032,786
Financial liabilities at amortised cost						
Due to Depositors	121,920,569	49,505,891	85,445,653	15,850,530	3,200	272,725,842
Repurchase Agreements	5,172,646	4,080,355	1,800,969	-	-	11,053,971
Due to Other Borrowers	79,873	6,536,963	7,318,811	22,763,297	3,058,150	39,757,094
Debt Securities Issued	14,413	-	1,375,839	15,387,726	-	16,777,977
Total Undiscounted Financial Liabilities	127,697,205	61,646,291	95,941,272	54,001,553	3,061,350	342,347,670
Net Undiscounted Financial Assets/ (Liabilities)	(2,972,009)	12,283,434	(16,315,710)	68,898,578	19,241,019	81,135,313
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	4,809,111	7,925,527	5,195,107	-	-	17,929,745
Contractual Amounts Payable	(4,809,111)	(7,925,527)	(5,195,107)	-	-	(17,929,745)
	-	-	-	-	-	-
Financial Liabilities						
Contractual Amounts Receivable	1,239,477	8,655,192	3,577,740	-	-	13,472,409
Contractual Amounts Payable	(1,239,477)	(8,655,192)	(3,577,740)	-	-	(13,472,409)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	(2,972,009)	12,283,434	(16,315,710)	68,898,578	19,241,019	81,135,313

Notes to the Financial Statements

Bank - As at 31 December 2020	On demand (Less than 15 days)	16 days to 3 month	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
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
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	47,610	20,250	1,073,575	1,556,238	-	2,697,673
Financial Assets at Fair Value through Other Comprehensive Income						
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
Financial Assets at Amortised Cost						
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	81,242,084	32,908,024	38,646,074	81,657,615	11,575,300	246,029,098
Total Undiscounted Financial Assets	107,204,066	44,375,805	88,543,877	120,841,047	15,492,229	376,457,023
Financial Liabilities						
Due to Banks	4,942,277	-	-	-	-	4,942,277
Financial liabilities at amortised cost						
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
Total Undiscounted Financial Liabilities	99,461,821	59,674,278	107,700,099	36,220,238	4,814,882	307,871,317
Net Undiscounted Financial Assets/ (Liabilities)	7,742,244	(15,298,473)	(19,156,222)	84,620,810	10,677,347	68,585,706
Gross Settled Derivatives not Held for Trading						
Financial Assets						
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)
	-	-	-	-	-	-
Financial Liabilities						
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)
	-	-	-	-	-	-
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	7,742,244	(15,298,473)	(19,156,222)	84,620,810	10,677,347	68,585,706

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 2021	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total LKR '000
Bonds	1,744,306	5,592,189	9,603,149	2,498,546	40	19,438,230
Acceptance	1,706,694	9,388,239	2,139,919	-	-	13,234,852
Guarantees	2,762,783	-	-	-	-	2,762,783
Letters of Credit	1,877,332	9,763,043	3,503,105	64,716	-	15,208,196
Foreign Exchange Contracts	6,048,588	16,580,719	8,772,848	-	-	31,402,154
Forward Contracts to Buy/Sell Government Securities	-	-	-	-	-	-
Undrawn Commitments						
Credit Cards	47,718,920	-	-	-	-	47,718,920
Other	87,592,159	-	-	-	-	87,592,159
Total Commitments and Guarantees	149,450,781	41,324,189	24,019,021	2,563,262	40	217,357,294

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 543Mn as at end of 2021 and LKR 311Mn 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 2020	On demand LKR '000	Less than 3 months LKR '000	3 to 12 months LKR '000	1 to 5 years LKR '000	Over 5 years LKR '000	Total 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
Total Commitments and Guarantees	143,801,963	27,079,924	24,162,747	2,185,453	-	197,230,088

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 and 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 each year.

Notes to the Financial Statements

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 2021	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
Assets							
Cash and balances with Central Bank of Sri Lanka	20,180,052	-	-	-	-	-	20,180,052
Loans and Advances	243,073,748	83,567,164	73,912,825	33,493,547	36,806,980	4,810,056	10,483,177
Investments	104,621,086	8,730,884	27,536,507	29,974,571	30,470,369	7,908,755	-
Other	42,308,221	6,786,161	16,637,097	9,152,690	-	-	9,732,273
Total Assets	410,183,107	99,084,209	118,086,428	72,620,808	67,277,348	12,718,812	40,395,502
Liabilities							
Deposits	266,109,289	88,274,293	47,871,482	81,139,656	14,049,222	3,200	34,771,436
Borrowings	57,220,341	5,164,718	15,315,137	16,919,423	17,157,896	2,663,166	-
Other	86,853,477	7,185,396	16,581,867	8,825,973	-	-	54,260,241
Total Shareholder Funds and Liabilities	410,183,107	100,624,407	79,768,487	106,885,052	31,207,118	2,666,366	89,031,677
Total Interest Sensitivity Gap		(1,540,199)	38,317,942	(34,264,244)	36,070,230	10,052,445	(48,636,175)

** The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

Bank - 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
Assets							
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
Total Assets	365,929,198	88,946,522	74,657,886	92,177,696	70,067,000	8,025,700	32,054,394
Liabilities							
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
Total Shareholder Funds and Liabilities	365,929,198	81,771,510	72,944,648	118,000,672	16,820,612	4,072,642	72,319,114
Total Interest Sensitivity Gap		7,175,012	1,713,238	(25,822,976)	53,246,388	3,953,058	(40,264,720)

** The Classifications are based on the basis agreed at ALCO for monitoring of repricing gaps.

Notes to the Financial Statements

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.

Bank	Increase (Decrease) in basis points	Sensitivity to Profit after Tax		Sensitivity to Equity after Tax	
Asset/Liabilities		2021 LKR'000	2020 LKR'000	2021 LKR'000	2020 LKR'000
LKR	+100/-100	+67,062/-68,317	+46,756/-47,221	-673,088/+716,825	-733,848/+773,250
USD	+50/-50	+21,539/-21,743	+12,066/-12,187	-19,733/+20,307	-66,068/+67,543

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 2021. 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 % 2021	Change in Currency Rate in % 2020	Effect on Profit after tax 2021 LKR'000	Effect on Profit after tax 2020 LKR'000
USD	+5	+5	18,800.8	(10,935.6)
GBP	+5	+5	(208.9)	(11.4)
EUR	+5	+5	22.2	71.0
AUD	+5	+5	(214.6)	(265.1)
JPY	+5	+5	(35.6)	(40.9)
Other	+5	+5	612.2	751.8

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 % 2021	Change in Currency Rate in % 2020	Effect on Profit after tax 2021 LKR'000	Effect on Profit after tax 2020 LKR'000
USD	+5	+5	13,106.8	5,210.5

Notes to the Financial Statements

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 2021. (2020 - 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 2021 LKR '000	2020 LKR '000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	26,926	117,765
Approved but not Contracted for	24,919	65,468
	51,845	183,233
Capital Commitments for Intangible Assets		
Approved and Contracted for	115,012	203,334
Approved but not Contracted for	315,543	95,801
	430,555	299,135
	482,400	482,368

48.3 Lease Arrangements

48.3.1 Operating Lease Commitments – Group as Lessee

The Group has entered into commercial leases for premises, ATM 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 2021 LKR '000	2020 LKR '000
Within one year	542,129	481,479
After one year but not more than five years	1,532,421	1,301,479
More than five years	96,746	107,037
	2,171,296	1,889,995

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 2021 LKR '000	2020 LKR '000
Within one year	180,039	21,911
After one year but not more than five years	340,579	35,159
	520,618	57,070

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 ll Capital, which includes subordinated long term debt.

49.2 Net Assets Value per Ordinary Share

	Bank		Group	
As at 31 December	2021	2020	2021	2020
Amount Used as the Numerator:				
Net Assets Attributable to Equity Holders of the Parent (LKR'000)	38,538,835	33,818,190	40,158,992	35,124,928
Number of Ordinary Shares Used as the Denominator:				
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
Net Assets Value per Ordinary Share (LKR)	135.77	119.14	141.48	123.74

50 EVENTS AFTER THE REPORTING DATE

No material events have taken place since 31 December 2021 that require disclosure or/and adjustments in these financial statements, except for the following;

a) Dividends Declared

A dividend of Rs. 3.50 per share in respect of year 2021 is declared by the Board of Directors to be paid in the form of scrip. Scrip issue will be made in the proportion of 01 share for every 16.02857 voting shares amounting to a total of 15,293,617 new voting shares and 01 share for every 16.60000 convertible non-voting shares, amounting to a total of 2,332,352 new convertible non-voting shares. Fractions in shares will be paid in cash.

b) Proposed Surcharge Tax

The Government of Sri Lanka in its Budget for 2022 has proposed a one-time tax, referred to as a surcharge tax of 25% to be imposed on companies that have earned a taxable income in excess of LKR 2,000 million for the year of assessment 2020/2021. The proposed tax should be deemed an expenditure in the financial statements relating to the year of assessment 2020/2021.These financial statements have not been adjusted to reflect the consequences of this proposal as the bill has not been substantially enacted as of the reporting date.

c) As announced to the Colombo Stock Exchange on 21 February 2022, Mr Priyantha Talwatte will step down from the post of Director/ Chief Executive Officer of the Bank with effect from 3 April 2022. This is in keeping with the Bank's already established succession plan for the post of Director/Chief Executive Officer which was approved by the Board at the time of the appointment of Mr. Talwatte.
Mr. Hemantha Gunatilleke, the current Deputy Chief Executive Officer, will take over as Director/Chief Executive Officer from the 4th of April 2022, subject to regulatory approvals from the Central Bank of Sri Lanka.

Our journey continues...

Pledging the delivery of consistent, progressive value over time.

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GRI Standard	Disclosure	Page number	Remarks
GRI 101: Foundation 2016 (does not include any disclosures)			
General Disclosures			
GRI 102: General Disclosures 2016	102-1 Name of Organisation	03	
	102-2 Activities, brands, products and services	19,22-25	
	102-3 Location of headquarters	IBC	
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	102-16 Values, principles, norms and standards of behaviour	2,56-57	
	102-18 Governance Structure	54,57	
	102-40 List of stakeholder groups	20-21	
	102-41 Collective bargaining agreements		The Bank does not have collective bar-gaining agreements in place
	102-42 Identifying and selecting stake holders	20-21	
	102-43 Approach to stakeholder engagement	20-21	
	102-44 Key topics and concerns raised	20-21	
	102-45 Entities included in the consolidated financial statements	03	
	102-46 Defining report content and topic boundary	03,30,195-196	
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GRI Standard	Disclosure	Page number	Remarks
Material topics			
Economic Performance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49	
	103-3 Evaluation of the Management Approach	33,49	
GRI 201: Economic Performance 2016	201-2 Financial implications and other risks and opportunities due climate change	49	
Tax			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33-35	
	103-3 Evaluation of the Management Approach	33-35	
GRI 207: Tax 2019	207-1 Approach to tax	35	
	207-2 Tax governance, control, and risk management	106,118-119	
	207-3 Stakeholder engagement and management of concerns related to tax	20-21,35	
	207-4 Country by country reporting	144,147-148,154-155	
Materials			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49-50	
	103-3 Evaluation of the Management Approach	33,49-50	
GRI 301: Materials 2016	301-1 Materials used by weight or volume	50	
Energy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49	
	103-3 Evaluation of the Management Approach	33,49	
GRI 302: Energy 2016	302-1 Energy consumption within the organization	49	
Water and effluents			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49-50	
	103-3 Evaluation of the Management Approach	33,49-50	
GRI 303: Water and effluents 2018	303-1 Interactions with water as a shared resource	50	
	303-2 Management of water discharge related impacts	50	
	303-5 Water consumption	50	
Biodiversity			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49-50	
	103-3 Evaluation of the Management Approach	33,49-50	
GRI 304: Biodiversity 2016	304-2 Significant impacts of activities, products and services on biodiversity	50	

GRI Standard	Disclosure	Page number	Remarks
Emissions			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49	
	103-3 Evaluation of the Management Approach	33,49	
GRI 305 Emissions: 2016	305-1 Direct greenhouse gas (GHG) emissions	49	
	305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	49	
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Waste			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49-50	
	103-3 Evaluation of the Management Approach	33,49-50	
GRI 306 Waste:2020	306-1 Waste generated and significant waste related impacts	50	
	306-2 Management of significant waste related impacts	50	
	306-3 Waste generated	50	
Environmental compliance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,49	
	103-3 Evaluation of the Management Approach	33,49	
GRI 307 Environmental compliance	307-1 Non-compliance with environmental laws and regulations	49	
Employment			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,40-41	
	103-3 Evaluation of the Management Approach	33,40-41	
GRI 401: Employment 2016	401-1 Employee hires and turnover	41	Employee turnover data is not presented in the report
Training and education			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,40,43	
	103-3 Evaluation of the Management Approach	33,40,43	
GRI 404: Training and education	404-1 Average hours of training per year per employee	43	
	404-2 Programs for upgrading skills and transition assistance programmes	43	
	404-3 Percentage of employees receiving regular performance and career development reviews	43	

GRI Context Index

GRI Standard	Disclosure	Page number	Remarks
Diversity and equal opportunity			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,40,43	
	103-3 Evaluation of the Management Approach	33,40,43	
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of government bodies and employees	41,43,54	
Local communities			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,46-47	
	103-3 Evaluation of the Management Approach	33,46-47	
GRI 413: Local communities	413-1 Operations with local community engagement, impact assessments and development programs	48	
Marketing and labelling			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,46-47	
	103-3 Evaluation of the Management Approach	33,46-47	
GRI 417: Marketing and labelling	417-1 Requirements for product and service labelling	47	
	417-2 Incidents of non-compliance concerning product and service information and labelling	47	
	417-3 Incidents of non-compliance concerning marketing communications	47	
Customer Privacy			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,46	
	103-3 Evaluation of the Management Approach	33,46	
GRI 418: Customer Privacy 2016	418-1 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	47	
Socio-economic compliance			
GRI 103: Management Approach	103-1 Explanation of material topics and its boundaries	195-196	
	103-2 The Management Approach and its components	33,46	
	103-3 Evaluation of the Management Approach	33,46	
GRI 419 Socio-economic compliance	419-1 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
Growth and profitability 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 207: Tax
Health and safety Health and safety of employees, customers, and other stakeholders continued to be critical importance during the year.	The Reporting boundary relates to our employees, customers, and communities in which our branches are located.	
Customer experience Elevating customer experience through convenience, accessibility and technology to a 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.	
Digitisation 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.	
Responsible lending 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
Employee attraction 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
Training and development With the Bank's digital transformation, it is imperative that we continue to upskill our employees and equip them with the rights tools to drive our strategic ambitions.	Relates to the Bank's direct employees.	404: Training and education
Employee satisfaction 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 Topics Annexure

Material topic and why it is material to us	Topic boundary and change in boundary	Corresponding GRI topics
Operational efficiency 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.	
Preserving the environment 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 303: Water and effluents 304: Bio diversity 305: Emissions 306: Waste
Corporate social responsibility 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 2021, 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 SHARESHOLDERS - VOTING

As at December 31, 2021	Resident			Non - Resident			Total		
Shareholdings	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of S hares	%
1 - 1000	3,977	1,199,941	0.49	27	9,867	0.00	4,004	1,209,808	0.49
1001 - 10,000	2,168	6,370,943	2.60	34	113,031	0.05	2,202	6,483,974	2.65
10,001 - 100,000	408	10,762,453	4.39	8	262,799	0.11	416	11,025,252	4.50
100,001 - 1,000,000	46	10,725,682	4.38	4	1,407,294	0.57	50	12,132,976	4.95
Over 1,000,000	16	176,128,240	71.85	2	38,154,571	15.56	18	214,282,811	87.41
	6,615	205,187,259	83.71	75	39,947,562	16.29	6,690	245,134,821	100.00

DISTRIBUTION OF ORDINARY SHARESHOLDERS - NON VOTING

As at December 31, 2021	Resident			Non - Resident			Total		
Shareholdings	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of S hares	%
1 - 1000	264	50,432	0.13	-	-	-	264	50,432	0.13
1001 - 10,000	38	91,220	0.24	-	-	-	38	91,220	0.24
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
	315	32,908,536	85.00	1	5,808,515	15.00	316	38,717,051	100.00

ANALYSIS OF SHAREHOLDERS - VOTING

As at December 31	2021			2020		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	6,340	27,618,329	11.27	6,467	28,423,742	11.60
Institutional	350	217,516,492	88.73	340	216,711,079	88.40
	6,690	245,134,821	100.00	6,807	245,134,821	100.00

ANALYSIS OF SHAREHOLDERS - NON VOTING

As at December 31	2021			2020		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	282	328,960	0.85	231	323,793	0.84
Institutional	34	38,388,091	99.15	31	38,393,258	99.16
	316	38,717,051	100.00	262	38,717,051	100.00

Investor Information

FLOAT ADJUSTED MARKET CAPITALISAZION

	31.12.2021		31.12.2020	
	Number	%	Number	%
Number of shareholders representing the public holding (Voting)	6,677	35.78	6,794	35.76
Number of shareholders representing the public holding (Non Voting)	307	1.01	252	0.99
Float Adjusted Market Capitalization	Rs. 4.85 Bn		Rs. 5.29 Bn	
Compliant under	Option 4		Option 3	

MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	Voting		Non-Voting	
	2021	2020	2021	2020
Market value				
Highest Value (LKR)	68.50	80.00	89.00	92.00
Lowest Value (LKR)	52.90	52.60	50.10	61.00
Value at end of year (LKR)	55.00	60.00	65.10	75.00
Trading Statistics				
No. of Transactions	13,688	12,819	336	35
No. of shares Traded (Mn)	18.53	46.54	0.05	0.0019
Value of shares Traded (LKR Mn)	1,075.45	2,920.94	2.92	0.14
Market Capitalization				
Market Capitalization (LKR Mn)	13,482.42	14,708.09	2,520.48	2,903.78

TWENTY LARGEST VOTING SHAREHOLDERS AS AT 31ST DECEMBER 2021

Name of the Shareholder	2021 No. of Shares	2021 %	2020* No. of Shares	2020* %
John Keells Holdings PLC	48,347,078	19.72	48,347,078	19.72
HWIC Asia Fund	36,770,223	15.00	36,770,223	15.00
Central Finance Company PLC A/C No 03	24,124,933	9.84	24,124,933	9.84
Mackinnons Keells Limited	23,931,802	9.76	23,931,802	9.76
Janashakthi Insurance PLC - Shareholders	23,767,885	9.70	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	4.92
Sri Lanka Insurance Corporation Ltd - Life Fund	9,587,516	3.91	9,587,516	3.91
Sri Lanka Insurance Corporation Ltd - General Fund	5,705,290	2.33	5,705,290	2.33
Hatton National Bank PLC A/C No 1	3,882,252	1.58	3,882,252	1.58
Mr. M.F. Hashim	2,645,548	1.08	2,640,548	1.08
National Savings Bank	2,284,901	0.93	2,331,061	0.95
Mr. P Brahmanage	2,152,839	0.88	2,152,839	0.88
J.B. Cocoshell (Pvt) Ltd	1,994,353	0.81	-	-
Mr. N.R. Somaiya	1,384,348	0.56	1,384,348	0.56
Timex Garments (Pvt) Ltd	1,199,120	0.49	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	1,128,824	0.46
Askold (Pvt) Ltd	782,478	0.32	782,478	0.32
Hallsville Trading Group INC.	763,822	0.31	763,822	0.31
	215,829,111	88.03	209,686,506	85.54
Other Shareholders	29,305,710	11.97	35,448,315	14.46
Total	245,134,821	100.00	245,134,821	100.00

*Shareholding as at 31 December 2020 of the top twenty shareholders as at 31 December 2021.

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. Both John Keells Holdings and Central Finance group are requested for an extension of the above deadline from CBSL and is currently awaiting a formal response from CBSL.

Investor Information

TWENTY LARGEST NON VOTING SHAREHOLDERS AS AT 31 DECEMBER 2021

Name of the Shareholder	2021 No. of Shares	2021 %	2020* No. of Shares	2020* %
John Keells Holdings PLC	16,000,788	41.33	16,000,788	41.33
Central Finance Company PLC A/C No 03	8,121,765	20.98	8,121,765	20.98
HWIC Asia Fund	5,808,515	15.00	5,808,515	15.00
Mackinnons Keells Limited	4,170,662	10.77	4,170,662	10.77
CF Insurance Brokers (Pvt) Ltd	2,117,807	5.47	2,117,807	5.47
CF Growth Fund Ltd A/C No.01	2,103,451	5.43	2,103,451	5.43
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. H.P. Savindu	5,020	0.01	-	-
Mr. K.S.N. Hirdaramani	4,185	0.01	4,185	0.01
Miss. R.S. Wickremeratne	4,173	0.01	-	-
	38,610,714	99.72	38,601,521	99.70
Other Shareholders	106,337	0.28	115,533	0.30
Total	38,717,051	100.00	38,717,051	100.00

*Shareholding as at 31 December 2020 of the top twenty shareholders as at 31 December 2021.

DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 2016/21, 2018/23, 2019/24 and 2019/24 of the bank are listed in the colombo stock exchange. Refer Note no 21.1 in page 142 for details of the debenture.

Risk Management Annexures

Credit Risk

Table 1

Gross Loans & Advances - Individual Impairment (as per financial reporting)

2021	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
Total loans & advances	15,554,114	-	4,002,338	11,655,658	60,318	10,670,732	152,857	4,730,524

*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)

2021	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
Total loans & advances	239,641,330	-	7,025,465	479,832	226,022,626	6,247,602	7,371,101

* Staff Loans exposures are not assessed for impairment.

Table 3

Performing & Non Performing Loans (as per Regulatory reporting)

2021	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
Total loans & advances	241,908,445	-	13,287,003	-	8,990,972	3,837,655	540,150	1,185,664	1,547,566	1,876,116	8,677,656

Note: Rs 7,914Mn 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

	2021		
	Trading book (LKR million)	Non-trading book (LKR million)	Total (LKR million)
Assets			
Cash and Cash Equivalents	-	13,427	13,427
Balances with Central Bank of Sri Lanka	-	6,915	6,915
Reverse Repurchase Agreements	-	3,001	3,001
Derivative Financial Instruments	473	-	473
Financial Assets	6,151	67,521	73,671
Other Financial Assets	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	-	26,140	26,140
Financial Assets at Amortised Cost - Loans and Advances	-	247,441	247,441
Other Assets	-	2,014	2,014
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE, ROU & Intangibles)	-	5,880	5,880
Total	6,624	373,018	379,642
Liabilities			
Due to Banks	-	2,016	2,016
Derivative Financial Instruments	166	-	166
Due to Depositers	-	267,992	267,992
Repurchase Agreements	-	10,900	10,900
Due to other Borrowers	-	35,601	35,601
Debt Securities Issued	-	12,353	12,353
Retirement benefit obligations	-	832	832
Tax Liabilities (Current & Deffered)	-	2,441	2,441
Other Liabilities	-	8,803	8,803
Equity & Other Reserves	-	38,539	38,539
Total	166	379,476	379,642
Contingent Liabilities & Commitments	31,402	185,955	217,357
Commitment & Guarantees	-	185,955	185,955
Forward on Government Securities	-	-	-
Derivative Assets - Held for Trading (Net)	31,402	-	31,402

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)	180.818	42.288	46.798	14.152	28.246	9.338	0 .947	2.474
	Liabilities (On & Off Balance sheet)	57.704	79.203	33.013	34.617	40.567	8.652	66.356	
	Periodic Gap	123.114	(36.915)	13.785	(20.465)	(12.321)	0.686	(65.409)	
GBP	Assets (On & Off Balance sheet)	3.313	5.157	0.014	0.029	0.017	0.004	0.026	(0.094)
	Liabilities (On & Off Balance sheet)	1.092	0.616	0.560	1.313	0.495	0.187	4.391	
	Periodic Gap	2.221	4.541	(0.546)	(1.284)	(0.479)	(0.183)	(4.366)	
EUR	Assets (On & Off Balance sheet)	2.041	0.705	5.308	0.033	0.019	-	0.061	(0.050)
	Liabilities (On & Off Balance sheet)	2.003	0.643	0.498	0.934	0.851	0.330	2.958	
	Periodic Gap	0.038	0.062	4.810	(0.901)	(0.832)	(0.330)	(2.897)	
AUD	Assets (On & Off Balance sheet)	6.195	12.451	0.020	0.002	0.006	-	(0.000)	(0.039)
	Liabilities (On & Off Balance sheet)	4.087	1.215	1.726	2.166	0.573	0.219	8.727	
	Periodic Gap	2.108	11.236	(1.706)	(2.164)	(0.567)	(0.219)	(8.727)	
JPY	Assets (On & Off Balance sheet)	23.445	0.120	-	5.755	-	-	17.265	(0.614)
	Liabilities (On & Off Balance sheet)	26.916	1.609	1.147	0.736	6.075	2.308	8.409	
	Periodic Gap	(3.471)	(1.489)	(1.147)	5.019	(6.075)	(2.308)	8.856	

Risk Management Annexures

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)	75,967	61,685	30,634	20,892	60,113	30,061	45,029
	Liabilities (On & Off Balance sheet)	55,423	32,528	25,758	20,534	38,209	25,071	141,723
	Periodic Gap	20,544	29,157	4,876	358	21,905	4,989	(96,693)
	Cumulative GAP	20,544	49,701	54,577	54,935	76,840	81,829	(14,864)
USD	Assets (On & Off Balance sheet)	112	78	71	30	84	15	6
	Liabilities (On & Off Balance sheet)	67	89	39	44	71	24	55
	Periodic Gap	45	(11)	33	(14)	13	(9)	(49)
	Cumulative GAP	45	34	66	52	65	56	6
GBP	Assets (On & Off Balance sheet)	4	5	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	1	1	1	1	1	-	14
	Periodic Gap	2	5	(1)	(1)	(1)	(0)	(14)
	Cumulative GAP	2	7	6	5	5	4	(9)
EUR	Assets (On & Off Balance sheet)	2	1	-	1	3	1	-
	Liabilities (On & Off Balance sheet)	3	1	-	1	1	-	5
	Periodic Gap	(1)	(0)	(0)	(0)	2	1	(5)
	Cumulative GAP	(1)	(1)	(1)	(1)	1	2	(3)
AUD	Assets (On & Off Balance sheet)	6	12	-	-	-	-	(0)
	Liabilities (On & Off Balance sheet)	4	1	2	2	1	-	8
	Periodic Gap	2	11	(2)	(2)	(1)	(0)	(8)
	Cumulative GAP	2	13	12	9	9	9	1
JPY	Assets (On & Off Balance sheet)	24	-	-	6	-	-	17
	Liabilities (On & Off Balance sheet)	35	10	1	1	6	2	33
	Periodic Gap	(11)	(9)	(1)	5	(6)	(2)	(16)
	Cumulative GAP	(11)	(21)	(22)	(17)	(23)	(25)	(41)

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	115,958	43,530	39,420	18,391	44,968	17,391	12,714	292,371
	Liabilities	94,125	38,819	39,362	34,499	24,254	6,816	2,666	240,542
	Periodic Gap	21,833	4,711	58	(16,108)	20,714	10,575	10,048	51,829
USD	Assets	107	146	60	14	21	4	-	352
	Liabilities	116	101	106	43	1	-	-	367
	Periodic Gap	(8)	45	(46)	(29)	20	4	-	(14)
GBP	Assets	3	5	-	-	-	-	-	8
	Liabilities	3	1	1	3	-	-	-	9
	Periodic Gap	-	4	(1)	(3)	-	-	-	(1)
EUR	Assets	7	1	-	-	-	-	-	8
	Liabilities	5	1	1	1	-	-	-	8
	Periodic Gap	2	(1)	(1)	(1)	-	-	-	(0)
AUD	Assets	6	12	-	-	-	-	-	19
	Liabilities	7	2	4	6	-	-	-	19
	Periodic Gap	(1)	10	(4)	(6)	-	-	-	-
JPY	Assets	-	-	-	-	-	-	-	-
	Liabilities	45	1	1	-	-	-	-	47
	Periodic Gap	(45)	(1)	(1)	-	-	-	-	(47)

Table 2

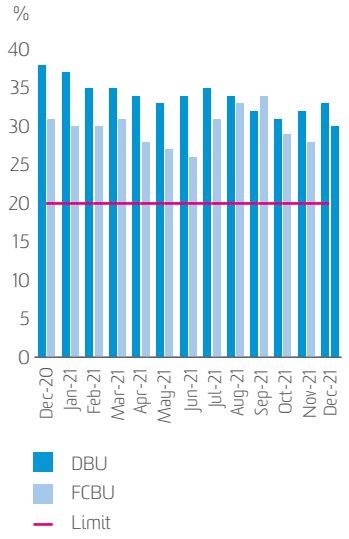
Interest Rate Risk in Banking Book- Economic Value of Equity (EVE) - in LKR Millions

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Up by 200bp	(14)	(40)	66	319	(735)	(602)	(1,006)	(2,011)
Down by 200bp	14	40	(66)	(319)	735	602	1,006	2,011

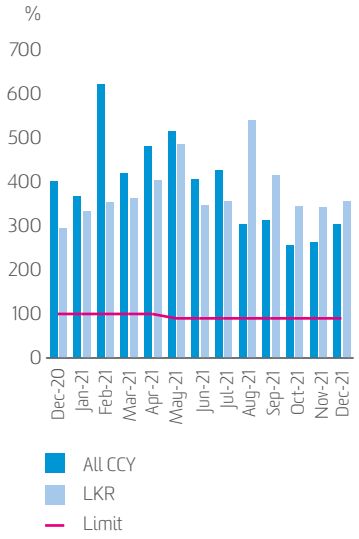
Risk Management Annexures

Liquidity Risk Trend Analysis

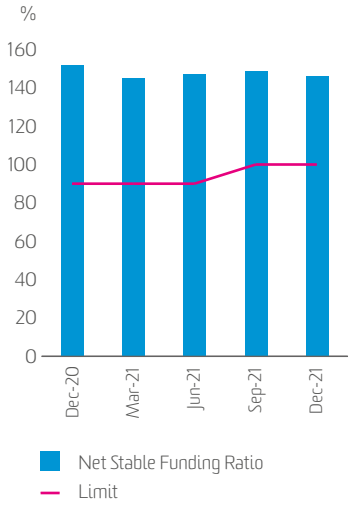
Statutory Liquidity Ratio



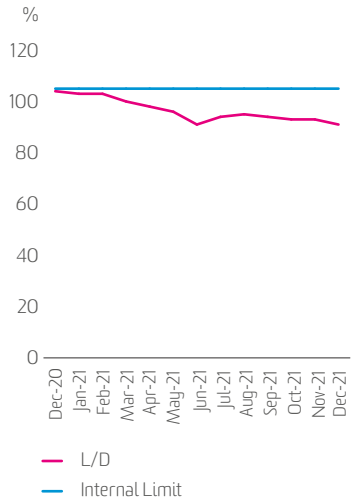
Liquidity Coverage Ratio



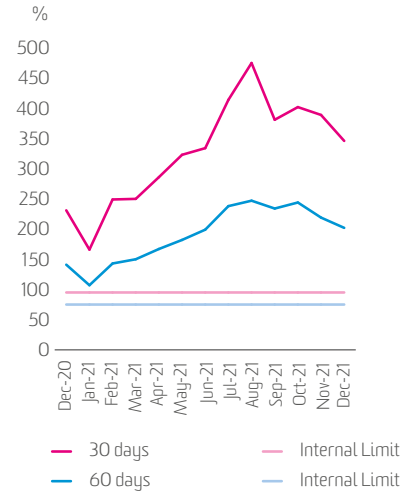
Net Stable Funding Ratio



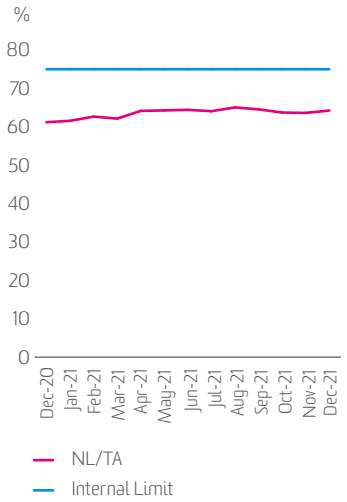
Loan to Deposit Ratio



Liquid Assets to Short term Liabilities Ratio



Net loans to Total Assets Ratio



BASEL III - Market Discipline - Minimum Disclosure Requirement Under Pillar 3 as per the Banking Act Direction No. 01 of 2016

Table 1

Key Regulatory Ratios - Capital and Liquidity

Item	Bank		Group	
	31-Dec-2021	31-Dec-2020	31-Dec-2021	31-Dec-2020
Regulatory Capital (LKR '000)				
Common Equity Tier 1	35,772,533	31,792,734	37,073,777	32,663,601
Tier 1 Capital	35,772,533	31,792,734	37,073,777	32,663,601
Total Capital	42,291,642	39,694,167	43,592,886	40,565,034
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.50%)	14.77%	14.40%	15.31%	14.79%
Tier 1 Capital Ratio (Minimum Requirement - 8.00%)	14.77%	14.40%	15.31%	14.79%
Total Capital Ratio (Minimum Requirement - 12.00%)	17.46%	17.98%	18.01%	18.37%
Leverage Ratio (Minimum Requirement -3%)	9.03%	9.03%	9.36%	9.27%
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	104,283,917	109,941,284		
Off-Shore Banking Unit (LKR'000)	9,897,774	6,174,415		
Statutory Liquid Assets Ratio % (Minimum Requirement - 20%)				
Domestic Banking Unit (%)	32.82%	38.79%		
Off-Shore Banking Unit (%)	29.67%	30.75%		
Total Stock of High-Quality Liquid Assets (LKR'000)	84,587,028	86,501,491		
Liquidity Coverage Ratio (%)				
Rupee (Minimum Requirement - 100% - 31-Dec-2021) (Minimum Requirement - 90% - 31-Dec-2020)	355.54%	455.66%		
All Currency (Minimum Requirement - 100% - 31-Dec-2021) (Minimum Requirement - 90% - 31-Dec-2020)	304.28%	341.63%		
Net Stable Funding Ratio \ (Minimum Requirement - 100% - 31-Dec-2021) (Minimum Requirement - 90% - 31-Dec-2020)	146.06%	151.62%		
Net Stable Funding Ratio (Minimum Requirement - 90% - 31-Dec-2020) (Minimum Requirement - 100% - 31-Dec-2019)	151.62%	136.08%		

Risk Management Annexures

Table 2

Basel III Computation of Capital Ratios

Item	Bank LKR '000		Group LKR '000	
	31-Dec-2021	31-Dec-2020	31-Dec-2021	31-Dec-2020
Common Equity Tier 1 (CET1) Capital after Adjustments	35,772,533	31,792,734	37,073,777	32,663,601
Common Equity Tier 1 (CET1) Capital	37,698,750	33,014,153	38,859,736	33,885,885
Equity Capital (Stated Capital)/Assigned Capital	9,408,134	9,408,134	9,408,134	9,408,134
Reserve Fund	1,882,111	1,371,854	1,882,111	1,561,788
Published Retained Earnings/(Accumulated Retained Losses)	26,911,908	21,838,944	28,072,895	22,520,742
Published Accumulated Other Comprehensive Income (OCI)	(503,404)	395,221	(503,404)	395,221
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	-	-	-	-
Total Adjustments to CET1 Capital	1,926,216	1,221,420	1,785,960	1,222,284
Goodwill (net)	-	-	-	-
Intangible Assets (net)	1,174,469	1,221,420	1,175,210	1,222,284
Deferred tax assets (net)	751,747	-	610,750	-
Shortfall of the Cumulative Impairment to Specific Provisions	-	-	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-	-	-
Additional Tier 1 (AT1) Capital	-	-	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to AT1 Capital	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
Tier 2 Capital after Adjustments	6,519,109	7,901,433	6,519,109	7,901,433
Tier 2 Capital	6,519,109	7,901,433	6,519,109	7,901,433
Qualifying Tier 2 Capital Instruments	3,839,048	6,169,524	3,839,048	6,169,524
Revaluation Gains	397,935	337,316	397,935	337,316
Loan Loss Provisions	2,282,127	1,394,594	2,282,127	1,394,594
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-	-	-
Total Adjustments to Tier 2	-	-	-	-
Investment in Own Shares	-	-	-	-
Others (specify)	-	-	-	-
CET1 Capital	35,772,533	31,792,734	37,073,777	32,663,601
Total Tier 1 Capital	35,772,533	31,792,734	37,073,777	32,663,601
Total Capital	42,291,642	39,694,167	43,592,886	40,565,034

Table 2 (Contd.)

Basel III Computation of Capital Ratios

Item	Bank LKR '000 31-Dec-2021	Bank LKR '000 31-Dec-2020	Group LKR '000 31-Dec-2021	Group LKR '000 31-Dec-2020
Total Risk Weighted Assets (RWA)	242,186,964	220,748,585	242,091,477	220,820,864
RWAs for Credit Risk	208,896,129	184,660,038	208,370,608	184,419,042
RWAs for Market Risk	5,532,774	9,196,617	5,532,774	9,196,617
RWAs for Operational Risk	27,758,061	26,891,930	28,188,094	27,205,205
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	14.77%	14.40%	15.31%	14.79%
of which: Capital Conservation Buffer (%)	2.000%	2.000%	2.000%	2.000%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	14.77%	14.40%	15.31%	14.79%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	17.46%	17.98%	18.01%	18.37%
of which: Capital Conservation Buffer (%)	2.000%	2.000%	2.000%	2.000%
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-2021	31-Dec-2020	31-Dec-2021	31-Dec-2020
Tier 1 Capital	35,772,533	31,792,734	37,073,777	32,663,601
Total Exposures	395,980,939	352,007,308	396,030,297	352,363,453
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	374,406,347	331,086,749	374,455,706	331,442,581
Derivative Exposures	476,286	506,355	476,286	506,355
Securities Financing Transaction Exposures	3,000,000	5,086,600	3,000,000	5,086,912
Other Off-Balance Sheet Exposures	18,098,305	15,327,604	18,098,305	15,327,604
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	9.03%	9.03%	9.36%	9.27%

Risk Management Annexures

Table 4

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Total Un-weighted Value LKR '000 31-Dec-2021	Total Weighted Value LKR '000 31-Dec-2021	Total Un-weighted Value LKR '000 31-Dec-2020	Total Weighted Value LKR '000 31-Dec-2020
"Total Stock of High-Quality Liquid Assets (HQLA)"	84,587,028	84,587,028	86,501,491	86,501,491
Total Adjusted Level 1A Assets	84,618,512	84,618,512	86,600,360	86,600,360
Level 1 Assets	84,587,028	84,587,028	86,501,491	86,501,491
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	463,654,421	55,410,732	411,641,306	45,616,812
Deposits	221,614,356	22,161,436	217,571,652	21,757,165
Unsecured Wholesale Funding	48,880,487	19,594,174	24,990,895	10,931,348
Secured Funding Transactions	613,381	-	419,355	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	189,931,908	11,040,833	165,806,560	10,075,454
Additional Requirements	2,614,289	2,614,289	2,852,845	2,852,845
Total Cash Inflows	59,402,130	27,611,639	44,722,393	20,296,842
Maturing Secured Lending Transactions Backed by Collateral	3,003,837	-	5,092,629	-
Committed Facilities	-	-	1,000,000	-
Other Inflows by Counterparty which are Maturing within 30 Days	52,280,040	27,505,067	37,777,272	20,166,695
Operational Deposits	3,931,175	-	722,345	-
Other Cash Inflows	187,080	187,080	130,147	130,147
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		304%		342%

Table 5

Net Stable Funding Ratio

Item	Bank Amount (LKR'000)	
	31-Dec-2021	31-Dec-2020
Total Available Stable Funding	285,905,828	264,280,333
Required Stable Funding – On Balance Sheet Assets	189,605,436	169,171,219
Required Stable Funding – Off Balance Sheet Items	6,138,738	5,128,616
Total Required Stable Funding	195,744,174	174,299,835
Net Stable Funding Ratio (Minimum Requirement - 100% - 31-Dec-2021) (Minimum Requirement - 90% - 31-Dec-2020)	146.06%	151.62%

Risk Management Annexures

Table 6

Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Ordinary Shares (Voting)	Ordinary Shares (Non Voting)	Subordinated Debt (Debentures)
Issuer	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	LK0309N00001	LK0309N00001	NTB-BD-20/04/23-C2402-12.65
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
Original Date of Issuance	3-May-99	20-Feb-18	20-Apr-18
Par Value of Instrument	22.12	80	100
Perpetual or Dated	Perpetual	Perpetual	Dated
Original Maturity Date, if Applicable	N/A	N/A	20-Apr-23
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	6,309,791	3,098,343	700,783
Accounting Classification (Equity/Liability)	Equity	Equity	Liability
Issuer Call subject to Prior Supervisory Approval			
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A
Coupons/Dividends			
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Discretionary dividend amount	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%
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non-Convertible	Convertible	Convertible
If Convertible, Conversion Trigger (s)	Non-Convertible	Starting from last market date of quarter ending 30th June and forward	As per Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	Non-Convertible	Fully or Partially	Fully or Partially
If Convertible, Mandatory or Optional	Non-Convertible	Optional	Mandatory
If Convertible, Conversion Rate	Non-Convertible	1:1	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.

Subordinated Debt (Debentures)	Subordinated Debt (Debentures)	Subordinated Debt (Debentures)
Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
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
20-Apr-18	23-Dec-19	23-Dec-19
100	100	100
Dated	Dated	Dated
20-Apr-23	23-Dec-24	23-Dec-26
407,550	1,755,000	1,350,000
Liability	Liability	Liability
N/A	N/A	N/A
N/A	N/A	N/A
Fixed	Fixed	Fixed
13.00%	12.80%	12.90%
Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible	Convertible	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
Fully or Partially	Fully or Partially	Fully or Partially
Mandatory	Mandatory	Mandatory
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.

Risk Management Annexures

Table 7

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	Bank LKR'000 as at -31-Dec-2021					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	32,285,722	-	32,285,722	100,000	1,160,025	4%
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	5,306,366	1,110,800	5,306,366	522,159	2,086,454	36%
Claims on Financial Institutions	8,634,546	30,713,191	8,634,546	884,733	6,948,361	73%
Claims on Corporates	91,372,819	75,857,866	91,372,819	13,994,432	101,878,767	97%
Retail Claims	98,894,073	75,241,645	98,894,073	3,187,303	78,583,600	77%
Claims Secured by Residential Property	7,653,249	-	7,653,249	-	5,343,156	70%
Claims Secured by Commercial Real Estate	1,855,333	-	1,855,333	25,037	1,880,370	100%
Non-Performing Assets (NPAs)(i)	5,318,106	-	5,318,106	-	6,021,822	113%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%
Cash Items and Other Assets	15,624,055	-	15,624,055	-	4,929,067	32%
Total	266,970,072	182,923,503	266,970,072	18,713,664	208,896,129	73%

Asset Class	GROUP LKR'000 as at -31-Dec-2021					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	32,285,722	-	32,285,722	100,000	1,160,025	4%
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	5,306,423	1,110,800	5,306,423	522,159	2,086,466	36%
Claims on Financial Institutions	8,634,546	30,713,191	8,634,546	884,733	6,948,361	73%
Claims on Corporates	91,361,650	75,857,866	91,361,650	13,994,432	101,867,597	97%
Retail Claims	98,894,073	75,241,645	98,894,073	3,187,303	78,583,600	77%
Claims Secured by Residential Property	7,653,249	-	7,653,249	-	5,343,156	70%
Claims Secured by Commercial Real Estate	1,855,333	-	1,855,333	25,037	1,880,370	100%
Non-Performing Assets (NPAs)(i)	5,318,106	-	5,318,106	-	6,021,822	113%
Higher-risk Categories	-	-	-	-	-	0%
Cash Items and Other Assets	15,174,221	-	15,174,221	-	4,479,211	30%
Total	266,483,325	182,923,503	266,483,325	18,713,664	208,370,608	73%

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.

Bank

LKR'000 as at -31-Dec-2020

Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
28,329,170	3,757,000	28,329,170	75,140	2,521,469	9%
-	-	-	-	-	0%
-	-	-	-	-	0%
-	-	-	-	-	0%
2,190,281	22,479,558	2,190,281	472,036	1,458,030	55%
6,490,381	1,835,395	6,490,381	1,263,810	5,671,122	73%
66,103,191	93,578,506	66,103,191	11,190,375	75,480,756	98%
96,752,526	75,771,072	96,752,526	2,867,449	76,418,142	77%
7,990,742	-	7,990,742	-	6,333,392	79%
543,634	73,046	543,634	24,177	567,812	100%
8,894,123	-	8,894,123	-	10,625,408	119%
25,803	-	25,803	-	64,507	250%
15,030,709	-	15,030,709	-	5,519,402	37%
232,350,560	197,494,577	232,350,560	15,892,988	184,660,038	74%

GROUP

LKR'000 as at -31-Dec-2020

Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
On-Balance Sheet Amount	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
28,329,170	3,757,000	28,329,170	75,140	2,521,469	9%
-	-	-	-	-	0%
-	-	-	-	-	0%
-	-	-	-	-	0%
2,190,339	22,479,558	2,190,339	472,036	1,458,042	55%
6,490,381	1,835,395	6,490,381	1,263,810	5,671,122	73%
66,103,555	93,579,284	66,103,555	11,190,375	75,481,119	98%
96,752,526	75,771,072	96,752,526	2,867,449	76,418,142	77%
7,990,742	-	7,990,742	-	6,333,392	79%
543,634	73,046	543,634	24,177	567,812	100%
8,894,123	-	8,894,123	-	10,625,408	119%
-	-	-	-	-	0%
14,853,867	-	14,853,867	-	5,342,537	36%
232,148,337	197,495,355	232,148,337	15,892,988	184,419,042	74%

Risk Management Annexures

Table 8
Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Bank										
	LKR'000 as at 31-Dec-2021 (Post CCF & CRM)										
Risk Weight Asset Classes	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposuresâ Amount
Claims on Central Government and Central Bank of Sri Lanka	20,785,469	11,600,254	-	-	-	-	-	-	-	-	32,385,722
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	-		2,850,775	-	2,922,901	-	-	54,849	-	-	5,828,525
Claims on Financial Institutions	-	-	241,546	-	4,755,362	-	-	4,522,370	-	-	9,519,279
Claims on Corporates	-		3,638,712	-	1,155,030	-	-	100,573,509	-	-	105,367,251
Retail Claims	73,305	-	201,326	-	-	2,704,212	88,726,905	10,375,629	-	-	102,081,377
Claims Secured by Residential Property	-	-	-	3,553,990	-	-	-	4,099,259	-	-	7,653,249
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	1,880,370	-	-	1,880,370
Non-Performing Assets (NPAs)	-	-	-	-	166,993	-	-	3,576,688	1,574,426	-	5,318,106
Higher-risk Categories	-	-	-	-	-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	9,343,191	-	1,689,745	-	-	-	-	4,591,118	-	-	15,624,055
Total	30,201,965	11,600,254	8,622,105	3,553,990	9,000,286	2,704,212	88,726,905	129,673,792	1,574,426	25,803	285,683,736

Description	Group										
	LKR'000 as at 31-Dec-2021 (Post CCF & CRM)										
Risk Weight Asset Classes	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposuresâ Amount
Claims on Central Government and Central Bank of Sri Lanka	20,785,469	11,600,254	-	-	-	-	-	-	-	-	32,385,722
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	-	-	2,850,833	-	2,922,901	-	-	54,849	-	-	5,828,582
Claims on Financial Institutions	-	-	241,546	-	4,755,362	-	-	4,522,370	-	-	9,519,279
Claims on Corporates	-	-	3,638,712	-	1,155,030	-	-	100,562,340	-	-	105,356,082
Retail Claims	73,305	-	201,326	-	-	2,704,212	88,726,905	10,375,629	-	-	102,081,377
Claims Secured by Residential Property	-	-	-	3,553,990	-	-	-	4,099,259	-	-	7,653,249
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	1,880,370	-	-	1,880,370
Non-Performing Assets (NPAs)	-	-	-	-	166,993	-	-	3,576,688	1,574,426	-	5,318,106
Higher-risk Categories	-	-	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	9,343,214	-	1,689,745	-	-	-	-	4,141,262	-	-	15,174,221
Total	30,201,988	11,600,254	8,622,162	3,553,990	9,000,286	2,704,212	88,726,905	129,212,767	1,574,426	-	285,196,988

Bank

LKR'000 as at 31-Dec-2020 (Post CCF & CRM)

0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
15,796,965	-	12,607,345	-	-	-	-	-	-	-	28,404,310
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	871,429	-	1,014,287	-	-	776,600	-	-	2,662,317
-	-	-	-	4,166,138	-	-	3,588,053	-	-	7,754,191
-	-	976,798	-	2,085,997	-	-	74,207,520	23,252	-	77,293,566
257,760	-	393	-	-	1,791,246	88,909,045	8,661,532	-	-	99,619,976
-	-	-	-	3,314,700	-	-	4,676,042	-	-	7,990,742
-	-	-	-	-	-	-	567,812	-	-	567,812
-	-	-	-	270,685	-	-	4,890,184	3,733,254	-	8,894,123
-	-	-	-	-	-	-	-	-	25,803	25,803
8,420,270	-	1,363,797	-	-	-	-	5,246,643	-	-	15,030,709
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

Group

LKR'000 as at 31-Dec-2020 (Post CCF & CRM)

0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
15,796,965	-	12,607,345	-	-	-	-	-	-	-	28,404,310
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	871,487	-	1,014,287	-	-	776,600	-	-	2,662,375
-	-	-	-	4,166,138	-	-	3,588,053	-	-	7,754,191
-	-	976,798	-	2,085,997	-	-	74,207,883	23,252	-	77,293,930
257,760	-	393	-	-	1,791,246	88,909,045	8,661,532	-	-	99,619,976
-	-	-	-	3,314,700	-	-	4,676,042	-	-	7,990,742
-	-	-	-	-	-	-	567,812	-	-	567,812
-	-	-	-	270,685	-	-	4,890,184	3,733,254	-	8,894,123
-	-	-	-	-	-	-	-	-	-	-
8,420,293	-	1,363,797	-	-	-	-	5,069,778	-	-	14,853,867
24,475,017	-	15,819,820	-	10,851,808	1,791,246	88,909,045	102,437,884	3,756,506	-	248,041,325

Risk Management Annexures

Table 9

Market Risk under Standardised Measurement Method

Item	Bank LKR '000		Group LKR '000	
	31-Dec-2021	31-Dec-2020	31-Dec-2021	31-Dec-2020
(a) RWA for Interest Rate Risk	602,420	1,065,625	602,420	1,065,625
General Interest Rate Risk	602,420	1,065,625	602,420	1,065,625
(i) Net Long or Short Position	602,420	1,065,625	602,420	1,065,625
(ii) Horizontal Disallowance	-	-	-	-
(iii) Vertical Disallowance	-	-	-	-
(iv) Options	-	-	-	-
Specific Interest Rate Risk	-	-	-	-
(b) RWA for Equity	-	-	-	-
(i) General Equity Risk	-	-	-	-
(ii) Specific Equity Risk	-	-	-	-
(c) RWA for Foreign Exchange & Gold	61,513	37,969	61,513	37,969
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	5,532,774	9,196,617	5,532,774	9,196,617

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-2021			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2020		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		22,191,304	21,094,930	23,333,112	15%		21,254,398	22,191,304	21,094,930
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	3,330,967					3,227,032				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	27,758,061					26,891,930				
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-2021			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2020		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		22,552,135	21,430,771	23,668,521	15%		21,309,585	22,552,135	21,430,771
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	3,382,571					3,264,625				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	28,188,094					27,205,205				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

Risk Management Annexures

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-2021				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
Assets	379,641,867	379,208,586	265,896,067	72,969,011	40,343,508
Cash and Cash Equivalents	13,427,451	13,427,986	13,427,986	-	-
Balances with Central Banks	6,915,197	6,813,183	6,813,183	-	-
Placements with Banks	3,001,370	3,102,000	102,000	-	3,000,000
Derivative Financial Instruments	472,864	-	-	-	-
Financial Assets - Recognised through Profit or Loss	6,150,508	72,969,011	-	72,969,011	-
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-	-	-
Financial Assets at Amortised Cost – Loans and Advances	247,441,428	247,880,943	211,713,275	-	36,167,668
Financial Assets at Fair Value through Other Comprehensive Income	67,520,760	-	-	-	-
Financial Assets at Amortised Cost - Debt Instruments	26,140,298	25,415,616	25,415,616	-	-
Investments in Subsidiaries	678,710	678,710	678,710	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	3,953,503	2,318,974	2,318,974	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	1,174,468	-	-	-	-
Other Assets	2,765,309	6,602,163	5,426,324	-	1,175,839
Liabilities	341,103,031	340,479,597	-	-	-
Due to Banks	2,016,105	6,984,704	-	-	-
Derivative Financial Instruments	165,699	-	-	-	-
Other Financial Liabilities Held-For- Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Depositors	267,991,907	266,234,717	-	-	-
Due to Other Borrowers	46,501,121	38,710,024	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	2,440,631	-	-	-	-
Deferred Tax Liabilities	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	9,634,693	16,550,152	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	12,352,873	12,000,000	-	-	-
Off-Balance Sheet Liabilities	217,357,294	228,666,461	227,884,596	-	-
Guarantees	2,762,783	2,762,783	2,762,783	-	-
Performance Bonds	19,438,230	19,438,230	19,158,095	-	-
Letters of Credit	15,208,196	15,208,196	15,188,834	-	-
Other Contingent Items	13,234,852	13,234,852	13,234,852	-	-
Undrawn Loan Commitments	135,311,079	135,311,079	135,311,079	-	-
Other Commitments	31,402,154	42,711,322	42,228,954	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	9,408,134	9,408,134	-	-	-
of which Amount Eligible for CET1	9,408,134	9,408,134	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	26,911,909	27,759,066	-	-	-
"Accumulated Other Comprehensive Income"	(503,404)	-	-	-	-
Other Reserves	2,722,196	1,561,788	-	-	442,150
Total Shareholders' Equity	38,538,836	38,728,988	-	-	442,150

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 (Ammended) 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
3(1)	**Responsibilities of the Board**	
	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. Vision, mission and corporate values have been communicated to the staff via intranet and regular training.	✓
3 (1) (i) (b)	**Overall business strategy including risk policy and risk management** Refer comments on 3 (1) (i) (a) Financial goals are updated on a 3 year rolling basis based on economic and market conditions. 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.	✓
3 (1) (i) (c)	**Risk Management** 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.	✓
3 (1) (i) (d)	**Communication with all stakeholders** 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.	✓
3 (1) (i) (e)	**Internal control systems and management information systems.** 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).	✓
3 (1) (i) (f)	**Key Management Personnel (KMP)** The Board has identified Key Management Personnel (KMP) as required by the Direction who are in a position to significantly influence policy, direct and control over business activities, operations and risk management.	✓
3 (1) (i) (g)	**Defining the areas of authority and key responsibilities for Director and KMP** 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.	✓
3 (1) (i) (h)	**Oversight of the affairs of the Bank KMP** 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.	✓
3 (1) (i) (i)	**Assess the effectiveness of own governance practices, including selection, nomination and election of directors and key management personnel, management of conflicts of interests** 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.	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (i) (j)	**Succession plan for KMP** 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.	✓
3 (1) (i) (k)	**Regular meetings with KMP** Refer comment on 3 (1) (i) (h) above	✓
3 (1) (i) (l)	**Regulatory environment and maintaining an effective relationship with regulators.** 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/endorses the steps taken to comply which 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)	**Exercising due diligence in hiring and oversight of external auditors** 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)	**Appoint of Chairman and CEO and defining and approving their functions and responsibilities** 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.	✓
	Board procedure	
3 (1)(iii)	**Board Meetings** Board met 13 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)	**Arrangements for Directors to include proposals in the agenda** 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)	**Notice of meetings** 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.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (vi)	**Directors' attendance** Details of the Directors attendance is set out on Page 56 of the Annual Report, 2021. 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)	**Appointment and setting responsibilities of the Company Secretary** 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)	**Directors' access to advise and services of the company secretary** 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)	**Maintenance of Board minutes** 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.	✓
3(1)(x)	**Maintaining minutes with sufficient details to serve as reference for regulatory and supervisory authorities** 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. The minutes of the meeting include; • A summary of data and information used by the Board in its deliberations • The matters considered by the board • The fact finding discussions and the issues of contention or dissent • The testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations • Matters regarding the risks to which the Bank is exposed and an overview of the risk management measures adopted • The decisions and board resolutions 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. 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. Board procedure also provides for the contents of the Board minutes.	✓
3 (1) (xi)	**Directors' ability to seek independent professional advise.** Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.	✓
3(1)(xii)	**Dealing with conflicts of interest** Board procedure specifically addresses avoidance of conflicts of interest. 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.	✓
3(1)(xiii)	**Formal schedule of matters specifically reserved to it for Board's decision** There is a schedule of matters reserved for Board approval which has been approved by the Board.	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (xiv)	**Inform Central Bank if there are solvency issues prior to taking any decision or action.** 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. Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control. IRMC discusses in detail the Key Risk Goals at each IRMC meeting and the minutes of the IRMC are submitted to the Board.	✓
3 (1) (xv)	**Capital Adequacy** 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.	✓
3 (1) (xvi)	**Publish Corporate Governance Report in this Annual Report** Report is published in page 53 of the Annual Report of 2021.	✓
3 (1) (xvii)	**Self-assessment of Directors** 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. The records of these assessments are maintained with the Company Secretary.	✓
3 (2)	**Board's composition**	
3(2)(i)	**Number of Directors** 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.	✓
3(2)(ii)	**Period of service of a Director** 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. Mr Suran Wijesinghe retired from the Board on 31st October 2021 having completed the 9 years on the Board of the Bank.	✓
3(2)(iii)	**Board balance** The Board consisted of eleven directors with one Executive Director and ten Non Executive Directors as at 31stDecember,2021. Number of Executive Directors has not exceeded one-third of the number of directors (the specified number) at any time during the year.	✓
3(2)(iv)	**Independent Directors** The Board comprised five Independent Non Executive Directors throughout the year, thus complying with this rule i.e. having at least three independent non executive Directors or one third of the total number of Directors whichever is higher. The Board determined the independent and non-independent status of Non Executive Directors based on the declarations submitted by them in accordance with the criteria defined in this direction.	✓ ✓
3 (2) (v)	**Alternate Directors** No alternate director has been appointed during the year.	✓
3(2)(vi)	**Criteria for Non executive directors** 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 16 of the Annual Report, 2021. 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)	**Quorum for the Board meeting is more than 50% of Directors and more than half the quorum to comprise non executive Directors** All meetings of the Board held during the year have been attended by a majority of Non Executive Directors.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (2) (viii)	**Identify Independent non-executive directors in communications and disclose categories of Directors in Annual Report.** The Independent non-executive directors are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. Composition of the Board, including the names of the Chairman, Executive Directors, Non Executive Directors and Independent Non- Executive directors are disclosed in page 59 of the Annual Report, 2021.	✓
3 (2) (ix)	**Formal and transparent procedure for appointments to the Board.** 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)	**Election of Directors to fill a casual vacancy** Notice and Agenda for the AGM to be held in 2022 includes a proposal to seek shareholders' approval to elect Director, Mr Chandika Hettiarachchi who was appointed to the Board after the AGM held in 2021.	✓
3(2)(xi)	**Communication of reason for removal or resignation of Director** 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)	**Prohibition of Directors or employees of a bank becoming a Director of another Bank** Based on the quarterly declarations submitted by individual directors in the year 2021, 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)	**Criteria to assess the fitness and propriety of directors**	
3(3) (i)	**Age of directors should not exceed 70 years** There are no directors on the Board of the Bank who are over 70 years of age.	✓
3(3)(ii)	**Directors should not hold directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.** No director of the Bank holds Directorships in more than 20 companies.	✓
3(3)(iii)	**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.** None of the directors were appointed to the Board during the period under review in contravention this rule.	✓
3 (4)	**Management functions delegated by the Board**	
3 (4) (i) and	**All directors shall carefully study and clearly understand the delegation arrangements**	✓
3 (4) (ii)	**Extent of delegation should not hinder Board's ability to discharge its functions** 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)	**Review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the bank.** As and when new requirements have arisen, the Board has reviewed and amended delegation arrangements based on the recommendations made by the management.	✓
3 (5)	**The Chairman and the Chief Executive Officer**	
3 (5) (i)	**The roles of the chairman and the chief executive officer shall be separate** 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.	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (5) (ii)	**Non Executive Chairman and appointment of a Senior Director** 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, 2021.	✓
3 (5) (iii)	**Disclosure of identity of the Chairman and CEO and any relationship among the Board members.** 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 2021. No relationship exist amongst the members of the Board other than the following; • Directors Mr. Gihan Cooray Ms. Sherin Cader and Dr. Ramesh Shanmuganathan were nominated to the Board by the Bank's material shareholder John Keells Holdings PLC. • Directors Mr Arjun Fernando and Mr. Chandika Hettiarachchi (appointed to the Board with effect from 5th January 2022) were nominated to the Board by the Bank's material shareholder Central Finance Company PLC	✓
3 (5) (iv)	**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.** 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.	✓
3 (5) (v)	**Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary.** 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.	✓
3 (5) (vi)	**Ensure that all the directors are properly briefed and provided with adequate information in a timely manner.** 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.	✓
3 (5) (vii) And 3 (5) (viii)	**Encourage active participation by all Directors and lead acting in the interests of the Bank.** **Encourage participation of non executive directors and constructive relations between non executive and executive directors** 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.	✓
3 (5) (ix)	**Refrain from direct supervision of KMP and executive duties** Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.	✓
3 (5) (x)	**Ensure effective communication with shareholders** 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.	✓
3 (5) (xi)	**CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.** The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6)	**Board appointed committees**	
3 (6) (i)	**Establishing Board sub committees, their functions and reporting** 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 2021.	✓
3 (6) (ii)	**Audit committee**	
3 (6) (ii) (a)	**Chairman to be an independent non-executive director with qualifications and experience in accountancy and /or audit.** The Chairperson of the Board Audit Review Committee (BARC),Ms. Rachini Rajapaksa is an Independent Non-Executive Director. 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.	✓
3 (6) (ii) (b)	**Committee to comprise solely of non-executive directors** All members of the BARC are non executive directors.	✓
3 (6) (ii) (c)	**Functions of the Board Audit Committee** • 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)	**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.** 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)	**Provision of non audit services by external auditors** 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)	**Determines scope of audit with the external auditors** 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	✓ ✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (g)	**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;** (i) major judgmental areas (ii) any changes in accounting policies and practices (iii) significant adjustments arising from the audit (iv) the going concern assumption; and the compliance with relevant accounting standards and other legal requirements. BARC meetings were held in 2021 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)	**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.** The BARC met the External Auditors in the absence of the management of the Bank on two occasions in 2021. 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)	**Review of the external auditor's management letter and the management's response thereto.** 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	✓
3 (6) (ii) (j)	**Review of Internal Audit Function** The BARC carries out the following with regard to the Internal Audit function: (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. (ii) The Audit plan for the year was approved by the BARC and the progress was reviewed on a regular basis. (iii) The Committee reviewed the internal audit reports and considered the findings, recommendations and corrective action. (iv) 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. (v) All senior appointments to the audit team were recommended by the BARC. (vi) 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 Chairperson BARC at periodic BARC meetings. (There have been no resignations of senior level staff during the year 2021). (vii) 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.	✓
3 (6) (ii) (k)	**Internal Investigations** 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.	✓ ✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (l)	**Attendees at Board Audit Committee meetings** 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)	**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 advise and to invite outsiders with relevant experience to attend, if necessary** 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 89 of the Annual Report	✓
3 (6) (ii) (n)	**Regular meetings** The Committee met ten times during the year2021. 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 keeping in line with health guidelines all meetings were held virtually.	✓
3 (6) (ii) (o)	**The board shall disclose in an informative way,** **(i) details of the activities of the audit committee** **(ii) the number of audit committee meetings held in the year** **details of attendance of each individual director at such meetings** Please refer the Board Audit Review Committee Report on page 89 of the Annual Report	✓
3 (6) (ii) (p)	**Maintain minutes of meetings** Detailed minutes are maintained by the Head- IA who is the Secretary to the BARC.	✓
3 (6) (ii) (q)	**Whistle Blowing Policy and relationship with external auditor** 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.	✓
3 (6) (iii)	**Human Resources and Remuneration Committee (HRRC)**	
3 (6) (iii) (a)	**Policy to determine the remuneration of directors, CEO and key management personnel** Board approved consolidated Human Resources Policy is in place	✓
3 (6) (iii)(b)	**Goals and targets for the directors, CEO and key management personnel.** 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.	✓
3 (6) (iii) (c)	**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.** Minutes of the meeting of the HRRC indicate that such evaluations and the proposal put forward by HR/ CEO for the remuneration in 2021 has been approved.	✓
3 (6) (iii) (d)	**CEO is present at all meetings of the committee, except when matters relating to the CEO are being discussed.** Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to her were discussed.	✓
3 (6) (iv)	**Nomination Committee**	
3 (6) (iv) (a)	**Implement a procedure to select/appoint new directors, CEO and key management personnel** 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.	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (iv) (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.** The Committee has considered and recommended re-election of directors in compliance with the Rule.	✓
3 (6) (iv) (c)	**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.** Criteria has been set and included in the JDs of KMP approved by the Nomination Committee	✓
3 (6) (iv) (d)	**Fit and proper criteria for directors, CEO and key management personnel** Affidavits of the Directors and CEO were submitted to the Committee during 2021 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. .	✓
3 (6) (iv) (e)	**Consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and key management personnel.** The Committee has met the criteria set out in the Rule.	✓
3 (6) (iv) (f)	**Committee Chairman and other members** Senior Independent Director, Mr Conrad D'Souza serves as the Chairman of the Committee.	✓
3 (6) (v)	**Integrated Risk Management Committee (IRMC)**	
3 (6) (v) (a)	**Composition of IRMC** 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.	✓
3 (6) (v) (b)	**Risk assessment of the Bank, subsidiary companies and associate companies** 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.	✓
3 (6) (v) (c)	**Review the adequacy and effectiveness of all management level committees** 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.	✓
3 (6) (v) (d)	**Corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels** 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.	✓
3 (6) (v) (e)	**Committee to meet at least quarterly to assess all aspects of risk management including updated business continuity plans.** IRMC has held eight meetings during the year.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (v) (f)	**Actions against Officers responsible for failure to identify specific risks or implement corrective actions** 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. 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	✓
3 (6) (v) (g)	**Risk assessment report to the Board** 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.	✓
3 (6) (v) (h)	**Compliance function** 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.	✓
3 (7)	**Related Party Transactions**	
3 (7) (i)	**Categories of Related Parties and avoidance of conflict of interest** 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. Board has also approved a framework for managing Relate Party Transactions and monitors its implementation through Related Party Transactions Review Committee.	✓
3 (7) (ii)	**Types of transactions with related parties covered by this Direction ;** (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation (b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments (c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank (d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. The Board approved related party policy contains provisions for same.	✓
3 (7) (iii)	**Ensure that the Bank does not engage transactions with related parties that would grant such parties more favourable treatment** Refer comment in 3 (7) (i) above. Board approved Related Party Transactions Policy contains provisions to ensure compliance. Related Party Transactions Review Committee ensures 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 2021.	✓
3(7)(iv)	**Granting accommodation to a director or close relation of a Director** 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.	✓
3(7) (v)	**Accommodation granted to persons who is subsequently appointed as a director or close relation of such person or concerns which such person has a substantial interest.** This situation has not arisen in the Bank to date. The Company Secretary obtains declarations from all the Directors prior to their appointment and they are requested to declare the transactions.	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3(7)(vi)	**Accommodation to employees or their close relations** No accommodation has been granted on more favourable terms relating to the waiver of fees and/or commissions to any employee or a close relation of employee or any concern in which the employee or close relation has a substantial interest to any employee or close relation has a substantial interest. Board approved Related Party Transactions policy contains provisions to ensure compliance.	✓
3(7)(vii)	**Prior approval of Monitory Board for remittance of accommodation** No such facility has been remitted in violation of this rule	✓
3(8)	**Disclosures**	
3(8) (i)	**Publish Annual Report and quarterly financial statements** Annual Report and quarterly financial statements were published as required by the rule.	✓
3 (8) (ii)	**Disclosures in the Annual Report**	✓
3 (8) (ii) (a)	**A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.** Included in page 103 of the Annual Report of 2021.	✓
3 (8) (ii) (b)	**A report by the Board on the Bank's internal control mechanism** Included in page 88 of the Annual Report of 2021.	✓
3 (8) (ii) (c)	**External Auditor's certification on the effectiveness of the internal control mechanism** The Bank has obtained Assurance Report by auditors under "Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 –Assurance Reports for Banks on Directors' Statements on Internal Control" . Please refer page 86 of Annual Report 2021	✓
3 (8) (ii) (d)	**Details of Directors, including names, fitness and propriety, transactions with the Bank the total of fees/remuneration paid by the Bank** Included in pages 62 of the Annual Report of 2021	✓
3 (8) (ii) (e)	**Total net accommodation as defined in 3(7)(iii) granted to each category of related parties.** Disclosed under Report of Board of Directors on the Affairs of the Bank included in page 58 and 61 of the Annual Report 2021.	✓
3 (8) (ii) (f)	**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** Included in page 60 and 63 of the Annual Report of 2021.	✓
3 (8) (ii) (g)	**The External Auditor's certification of the compliance with Corporate Governance Directions of CBSL in the Annual Corporate Governance.** All findings of the 'Factual Findings Reports" of auditors issued under "Sri Lanka Related Services Practice Statement 4750" have been incorporated in this report.	✓
3 (8) (ii) (h)	**A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances** Included in the Annual Report, 2021.	✓
3 (8) (ii) (i)	**A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.** No such matter has been specified by the Monetary Board of CBSL.	✓

Ten Year Key Performance Trends

Year Ended December 31st	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
LKR Mn (Group)										
OPERATING RESULTS										
Gross Income	17,673	20,362	20,854	20,279	25,547	35,333	43,461	46,314	40,666	38,378
Net Interest Income	5,755	7,675	8,940	9,105	9,786	11,909	15,164	16,134	13,672	14,078
Net Fees & Other Income	2,576	2,235	3,177	3,414	3,925	5,005	6,146	6,418	7,026	9,192
Total Operating Income	8,331	9,910	12,117	12,519	13,711	16,914	21,310	22,552	20,698	23,269
Operating Expenses	(4,697)	(5,779)	(6,363)	(6,862)	(7,620)	(8,773)	(10,310)	(10,808)	(9,296)	(9,122)
Impairment	(433)	(451)	(1,182)	(985)	(690)	(1,089)	(3,274)	(3,301)	(3,847)	(3,742)
Profit Before Taxation	3,201	3,681	4,571	4,672	5,400	7,052	7,726	8,444	7,555	10,405
Taxation & Levies	(1,250)	(1,544)	(2,035)	(2,058)	(2,531)	(3,680)	(4,024)	(4,730)	(3,500)	(3,712)
Profit After Taxation	1,951	2,136	2,537	2,614	2,869	3,371	3,702	3,714	4,055	6,694
Other Comprehensive Income (OCI)		(9)	104	(32)	(236)	1,262	(288)	664	327	(1,092)
Total Comprehensive Income		2,127	2,641	2,582	2,633	4,634	3,414	4,378	4,382	5,602
As at December 31st										
ASSETS										
Cash & Short-Term Funds	2,534	3,020	6,900	6,392	4,188	6,850	6,438	8,756	9,145	13,428
Statutory Deposits with Central Bank	5,089	4,032	3,992	5,284	8,512	11,213	12,762	8,377	2,195	6,915
Government Treasury Bills & Bonds	34,038	44,812	40,696	31,623	36,738	49,335	74,254	71,839	107,414	102,813
Investment Securities	2,221	2,315	3,949	7,065	6,926	7,028	-	-	-	-
Loans & Advances	73,424	82,327	98,347	121,143	149,818	186,746	221,506	226,794	210,186	247,442
Other Assets	2,591	2,894	1,419	1,386	1,814	1,941	5,085	4,154	4,147	4,481
Property Plant & Equipment	1,908	2,048	2,194	2,143	1,996	3,364	3,669	4,073	3,682	3,298
Intangible Assets	642	680	1,283	1,224	1,189	1,154	1,303	1,376	1,222	1,175
Total Assets	122,447	142,128	158,781	176,262	211,180	267,629	325,016	325,369	337,991	379,552
LIABILITIES										
Deposits	86,274	95,730	111,010	129,158	151,502	194,269	231,463	226,872	240,574	267,988
Due to Banks	2,712	1,401	2,923	2,276	11,851	12,315	18,475	6,484	4,942	2,016
Deferred Tax Liabilities	280	341	413	733	969	1,828	1,050	1,160	1,028	-
Borrowings	18,695	27,508	25,402	23,433	23,536	30,573	36,676	50,735	47,695	57,087
Other Liabilities	4,390	5,410	5,138	5,491	6,001	7,175	10,294	8,723	8,628	12,301
Total Liabilities	112,351	130,390	144,887	161,090	193,859	246,159	297,957	293,974	302,866	339,393
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	5,101	5,101	5,101	5,101	5,101	5,101	8,866	9,408	9,408	9,408
Reserve Fund	314	419	538	661	796	1,011	1,199	1,372	1,562	1,882
Reserves	4,681	6,217	8,255	9,409	11,423	15,358	16,994	20,616	24,155	28,869
Total Shareholders' Funds	10,096	11,738	13,895	15,171	17,321	21,470	27,059	31,396	35,125	40,159
Total Liabilities & Shareholders' Funds	122,447	142,128	158,781	176,262	211,180	267,629	325,016	325,369	337,991	379,552
Commitments & Contingencies	86,239	90,267	98,799	96,792	123,585	171,587	190,602	199,359	197,231	217,357

Ten Year Key Performance Trends

Year Ended December 31st	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
RATIOS (GROUP)										
Operating Income Growth (%)	28.31	18.95	22.27	3.33	9.52	23.36	25.99	5.83	(8.22)	12.43
Cost/Income Ratio (%)	56.38	58.31	52.52	54.81	55.58	51.87	48.38	47.92	44.91	39.20
Return On Average Assets (%)	1.74	1.61	1.69	1.56	1.48	1.41	1.25	1.14	1.22	1.87
Total Assets to Shareholders' Funds (Times)	12.13	12.11	11.43	11.62	12.19	12.47	12.01	10.36	9.62	9.45
Tier 1 Capital Adequacy Ratio (%)	13.82	14.78	14.16	13.15	11.40	10.83	12.15	13.30	14.79	15.31
Total Capital Adequacy Ratio (%)	18.18	20.00	18.28	15.53	15.82	13.89	15.59	17.96	18.37	18.01
Return on Average Shareholders' Funds (%)	20.84	19.57	19.79	17.99	17.66	17.38	15.26	12.71	12.19	17.78
SHAREHOLDER INFORMATION (GROUP)										
Market Value per Share (LKR)-Voting	56.00	62.20	97.00	86.30	80.90	78.00	89.20	80.00	60.00	55.00
Market Value per Share (LKR)-Non Voting							82.10	80.00	75.00	65.10
Net Asset Value per Share (LKR)	43.78	50.90	60.25	65.79	75.11	93.10	97.42	110.61	123.74	141.48
Earnings Per Share (LKR)	7.46	8.17	9.70	10.00	10.98	12.90	12.28	12.32	13.45	22.20
Price Earning Ratio (Times)-Voting	7.50	7.61	9.99	8.63	7.37	6.05	7.26	6.49	4.46	2.48
Earnings Yield (%)-Voting	13.33	13.14	10.01	11.59	13.57	16.54	13.77	15.40	22.42	40.37
Cash Dividend Per Share (LKR)	2.10	2.10	2.10	2.10	2.10	-	-	2.30	2.00	-
Scrip Dividend Per Share (LKR)	-	-	-	-	-	2.10	2.10	-	-	3.50
Dividend Payout Ratio (%)	28.13	25.69	21.64	21.09	19.13	16.28	17.10	18.67	14.87	15.76
% of 20 Largest Shareholders-Voting	65.78	79.64	81.53	86.02	87.69	88.77	89.51	89.90	87.28	88.03
% of 20 Largest Shareholders-Non Voting							99.57	99.71	99.72	99.72
OTHER INFORMATION (Group)										
Number of Employees	2,037	2,262	2,562	2,695	2,770	2,943	3,128	3,151	2,832	2,727
Number of Branches	57	72	89	92	93	93	94	96	96	96
No of ATMs	70	100	124	131	136	136	172	176	173	163

Service Network

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, Baticoloa
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,Elpitya
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
49	Kiribathgoda	No. 69, Makola Road,Kiribathgoda

Service Network

No	Name of the Branch	Address
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 Nawinna	Arpico Super Centre, No.310, High Level Road, Navinna, Maharagama
3	Asiri	No. 181, Kirula Road, Narahenpita
4	Attidiya	L & S Engineering (Pvt) Ltd, No. 208, Main Road, Attidiya
5	Cinnamon Lakeside	No.115, Sir Chitthampalam A Gardiner Mawatha, Colombo 02
6	Digana	MAS Factory, BOI, Pallekelle
7	Kadana	Arpico Daily, No.88, Negambo road, Kandana
8	Kaduruwala	Texwin Clothing (PVT) LTD, BOP 398, Abayapura, Pulasthigama, Kaduruwela
9	Kaduwela	The Main Bus Stand, Awissawella Road, Kaduwela
10	Kalubowila	No.53, Hospital Road, Kalubowila, Dehiwala
11	Kottawa	Keells super,No.119, Horana Road, Kottawa
12	Borella	Keells Super- Borella, No.85, Dr N.M. Perera Mawatha, Colombo 08
13	Kurunegala	Arpico Super Center, No.275,Colombo Road, Kurunegala
14	Laugfs Pitakotte	No.338, Kotte Road, Pitakotte
15	Leesons Ragama	Leesons Hospital, No.32, Thewatta Road, Ragama
16	Matara	Arpico Super Centre, No.A2, Matara Road, Matara
17	Miriswatta	Lanka Filling Station, No.144, Kandy Road, Miriswatte, Mudungoda
18	Panadura	Arpico super center, No.542, Galle road, Panadura
19	Negombo	Keells Super Negombo , No.41, Archibishop Nocholas Marcus Fernando Mawatha, Negombo
20	Peradeniya	Royal Mall Shopping Complex, No.903/18, William Gopallawa Mw, Kandy
21	Rajagiriya Pbc	Keells Super Rajagiriya, No.475, Sri Jayawardenapura Road, Rajagiriya
22	Waterfront	Water Front, No.92, Glennie Street, Colombo 2
23	Wattala	Keells Super-Wattala, No.385, Negombo Road, Wattala
24	Gamapaha Railway	Sri Lanka Railway Station, Gampaha
25	Ganemulla	Sri Lanka Railway Station, Ganemulla
26	Hive	No.256, Sri Ramanathan Mawatha, Kotahena, Colombo 15.

OFFSITE CRMS

	CRM Location Name	Address
1	Ampara	No.22, Liyanwala building, Ampara
2	ANC	No.310, R. A. De Mel Mawatha, Colombo
3	CINEC	CINEC Maritime Campus, Millennium Drive, IT Park ,Malambe.
4	SLIC - Vauxhall	Rakshana Mandiraya,No.21, Vauxhall Street, Colombo 02
5	SLIIT	SLIIT,New Kandy Road,Malabe
6	Makumbura Multimodal Centre	Makumbura Multimodal Centre (MMC) - Kottawa, Avissawella Rd, Pannipitiya

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.

Glossary

NPA Ratio
Total non-performing advances (net of Interest in Suspense) divided by total advances portfolio (net of Interest in Suspense).

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.

TWENTY THIRD ANNUAL GENERAL MEETING OF NATIONS TRUST BANK PLC

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 Third (23rd) 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, Place and Conduct of AGM
   (a) AGM by virtual means will be held on Wednesday, 30th March, 2022 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, pre registration and voting
   (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 enclosed herewith 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. Shareholders' queries
   (a) If the shareholders wish to raise any queries/questions during the meeting, they are advised to forward same via e mail: Company.Secretary@nationstrust.com or by post to the registered address of the Bank at No. 242, Union Place, Colombo 02 at least 7 days prior to the meeting, so that the Company Secretary will be able to compile queries and forward same for the attention of the Board of Directors to be discussed at the meeting.
   (b) 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 30th March 2022 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/ Company Secretary

23 February 2022

Notice of Meeting

Notice is hereby given that the Twenty Third Annual General Meeting of Nations Trust Bank PLC will be held by virtual means on Wednesday, 30th March, 2022 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, 2021 with the Report of the Auditors thereon.
3. To re-elect Mr. Savanth Sebastian 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 Ms. Sherin Cader 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 elect Mr. Chandika Hettiarachchi 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.
6. To reappoint Auditors and to authorise the Directors to determine their remuneration.
7. To authorise the Directors to determine and make donations.
8. 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/ Company Secretary

23 February 2022
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. 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. Chandika Hettiarachchi 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 Third Annual General Meeting of the Company to be held by virtual means on Wednesday, 30th March, 2022 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, 2022.

.....

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 2021 with the Report of the Auditors thereon.		
2. To re-elect Mr. Savanth Sebastian 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 Ms. Sherin Cader 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 elect Mr. Chandika Hettiarachchi 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.		
5. To reappoint Auditors and to authorise the Directors to determine their remuneration.		
6. 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 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. 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. Chandika Hettiarachchi or failing him
Mr. Priyantha Talwatte

as my/our Proxy to represent me/us at the Twenty Third Annual General Meeting of the Company to be held by virtual means on Wednesday, 30th March, 2022 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, 2022.

.....
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 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 THIRD ANNUAL GENERAL MEETING- 30TH MARCH 2022

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 Land Line
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 Land Line
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 Cooary –Chairman
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
Mr Priyantha Talwatte
Mr Ramesh Shanmuganathan
Mr Chandika Hettiarachchi

Board Supervisory Committee
Ms Sherin Cader-Chairperson
Mr Savanth Sebastian
Mr Arjun Fernando

Board Audit Review Committee
Ms Rachini Rajapaksa – Chairperson
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 Conrad D'Souza -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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Nations TrustBank

www.nationstrust.com