



Annual Report 2022

THE RIGHT WAY FORWARD

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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 digital mediums.



The PDF version of the Annual Report 2022 can be read at: <https://www.nationstrust.com/about-us/investor-relations/annual-reports>

Reaching a destination is only half the story.
How you get there matters in equal measure.
Nations Trust Bank has always placed a very high value on integrity and accountability and these qualities have served us well and helped us to navigate through challenging macroeconomic conditions and come out delivering all the right results. The prudent planning, assessment and measures implemented ahead of time have resulted in the bank steadily advancing against all odds.

While the right way may not be the conventional one,
it always is the better one.

The Right Way Forward



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.

Values

- Trust
- Agility
- Proactive
- Excellence
- Collaboration

NATIONS
SPIRIT
IS IN YOU

Overview

About this Report

We are pleased to present our 9th Integrated Annual Report this year. This Report provides readers with a concise and balanced review of our strategy, governance structure and performance amid emerging opportunities and risks as well as performance outlook over the medium-to-long term. While this report is intended to fulfill the information needs of our capital providers, it also includes information relevant to our broader stakeholder groups and demonstrates how resources were allocated to create value for them.

Reporting Entity

This Report covers the operations of Nations Trust Bank and its subsidiaries, Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited (collectively referred to as "Group").

Reporting Period

We adopt an annual reporting cycle and this report covers the period from 1st January 2022 to 31st December 2022. This report builds on our previous Report for the financial year ending 31st December 2021 which is available for download at www.nationstrust.com.

Standards and Principles

This Report has been prepared in accordance with

- Sri Lanka Financial Reporting Standards
- Integrated Reporting Framework of the International Integrated Reporting Council
- Core criteria of the GRI Standards

Board Responsibility Statement

NTB's Board of Directors have reviewed the 2022 Annual Report prepared by the Corporate Management in line with the guidance provided in the Integrated Reporting Framework and hereby confirm that it addresses all relevant material matters and fairly represents the Group's integrated performance.

Signed on behalf of the Board,

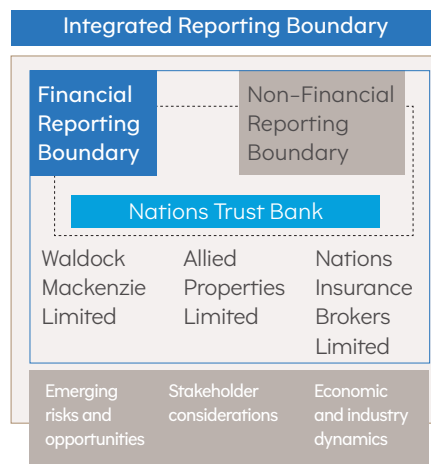


Assurance

- Assurance on financial statements was obtained from Messrs. Ernst and Young
- Assurance on sustainability reporting was obtained through Messrs. Ernst and Young

Scope and Boundary

The financial information in the Financial Statements and the narrative represents consolidated information unless otherwise stated. Quantitative non-financial disclosures represent only the Bank which accounts for over 95% of the Group's assets, liabilities, profit and people while the narrative extends to the external environment to include opportunities, risks and outcomes attributed to our stakeholders. The Group operates exclusively in Sri Lanka. The scope and boundary of the integrated report is presented diagrammatically alongside.



Changes to Reporting

There were no major changes to the Bank's size, supply chain and shareholding structure 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.

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

Navigation Icons

OUR CAPITALS



Financial Capital



Manufactured Capital



Human Capital



Digital Capital



Intellectual Capital



Social and Relationship Capital



Natural Capital

OUR STAKEHOLDERS



Customers



Shareholders



Employees



Business Partners



Government



Community

STRATEGIC FOCUS AREAS



Business Focus



Cost and Efficiency Management



Customer Experience



Automation and Digitisation

Nations Trust at a Glance

As a Sri Lankan licensed commercial bank, Nations Trust is committed to providing innovative banking solutions to the Nations Corporate, Commercial and Consumer segments through a customer-centric, technology driven approach. The Bank's relentless focus on redefining the customer experience through cutting-edge digital technology has enabled Nations Trust to carve a niche for itself within the highly competitive Sri Lankan banking industry while supporting a high level of resilience to the unprecedented shifts occurring in the sector.

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

Customer Value Proposition

NTB's customer value proposition centres on providing personalised banking solutions with a customer lifecycle approach and is underpinned by a comprehensive product portfolio, excellent customer service, omni-channel service delivery and best-in-class digital platforms.



A Comprehensive Product Portfolio



CORPORATE

- Working Capital Financing
- Supply Chain Financing
- Structured Finance & Syndications
- Trade Financing
- Cash Management
- Corporate Cards



COMMERCIAL

- Trade Financing
- Term Loans
- Leasing and Hire Purchase
- Business Banking
- Nations Business Investment Planner



CONSUMER

- Savings & Investment products
- Leasing
- Loans (Personal/Vehicle/Housing)
- Credit and Debit Cards
- Bancassurance

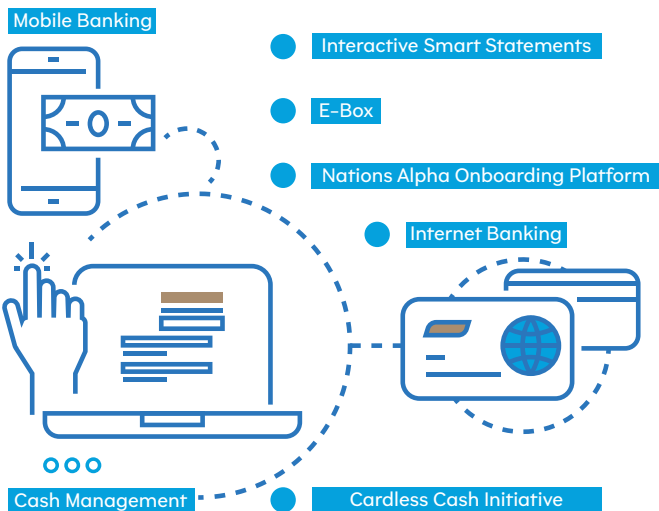


Scan for more information about Bank's offerings

Omni Channel Service Delivery

96 Branches	83 ATM	85 CRM
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Digital Proposition



Our People

A dynamic and talented workforce of **2,479 Employees**

Key Financial Highlights

LKR 38.8 Bn Operating Income	LKR 414.9 Bn Total Assets
LKR 7.2 Bn Profit After Tax	16.9% Total Capital Ratio

Year in Review

Operating Environment

 P	 E	 S	 T	 E	 L
<p>Political instability owing to the economic crisis during the first half of 2022 and restored subsequently.</p>	<p>Unprecedented volatility and uncertainty in the economic environment.</p>	<p>The economic crisis gave rise to high levels of social instability during the first half of the year was restored to a large extent by the year end.</p>	<p>Increased emphasis on digitalisation giving rise to new risks associated with cyber security and customer data protection.</p>	<p>The ability to influence sustainable business practices through the lending decisions of banks.</p>	<p>Introduction of new regulations pertaining to sustainability, forex, liquidity, interest rates and technology risk management.</p>

Strategic Focus

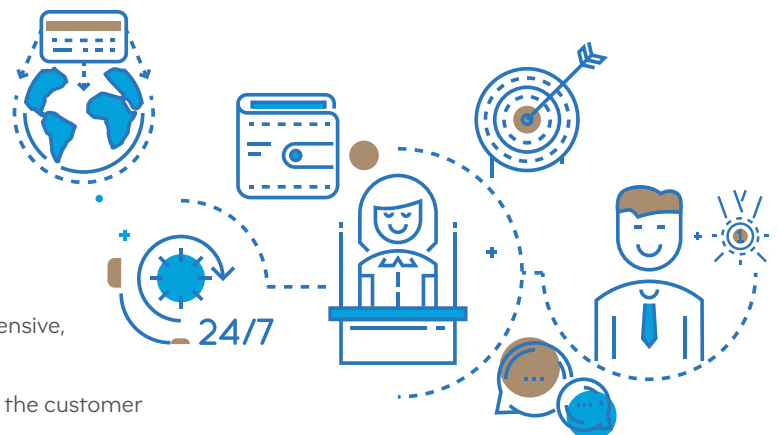
- Preserving the financial stability of the Bank by enhancing its liquidity position, implementing a selective lending strategy and maintaining portfolio quality
- Delivery of customer-centric solutions through a lifecycle proposition and relationship driven approach
- Digitalisation of internal and external processes to enhance the customer experience and increase operational efficiency
- Creating an inclusive, dynamic and rewarding work environment
- Integrating environmental and social consciousness

Results

<p>11% Growth in Deposits</p>	<p>67% Growth in Operating Income</p>	<p>30% Cost : Income Ratio (2021: 39%)</p>	<p>8% Growth in Profit After Tax</p>
<p>16.9% Total Capital Ratio</p>	<p>2.6% Stage 3 Ratio</p>	<p>17.1% Return on Equity</p>	<p>8% Growth in EPS</p>

Way Forward

- Proactively identify and manage risks stemming from the external environment
- Support the growth of the country's export and local manufacturing sectors in line with the national strategy
- Continued emphasis on enhancing the customer banking experience through the provision of comprehensive, personalised banking solutions
- Maintain the Bank's focus on digitalisation to enhance the customer experience and drive operational efficiency



Performance Highlights



Figures In LKR Million	2022	2021	Change
Performance of the Year (Group)			
Operating income	38,867	23,269	67%
Operating expense	11,559	9,122	27%
Profit after tax	7,228	6,694	8%
Financial Position			
Customer deposits	297,253	267,988	11%
Loans and receivables	241,241	247,441	-3%
Total assets	414,944	379,552	9%
Total equity	46,041	40,159	15%
Profitability			
Net interest margin (Bank)	6.98%	3.85%	
Cost to income ratio	30%	39%	
Return on assets	1.7%	1.8%	
Return on equity	17.1%	17.9%	
Return on risk weighted assets	2.7%	2.8%	
Investor Information			
Market value per share - voting (LKR)	46.2	55.0	
Market value per share - non voting (LKR)	57.4	65.1	
Net asset value per share (LKR)	152.7	141.5	
Earnings per share - basic (LKR)	22.6	20.9	
Dividend per share (LKR)	4.0	3.5	
Dividend yield (Voting)	8.7%	6.4%	
Market capitalisation (LKR million)	14,388	16,009	
Risk Management (Bank)			
Stage III Loans/Gross Loans	2.6%	2.1%	
Stage III Impairment/Stage III Loans	50.7%	50.7%	
Capital Adequacy Ratio (Bank)			
Tier 1	14.21%	14.77%	
Total capital	16.31%	17.46%	
Leverage ratio	8.94%	9.03%	
Statutory liquid assets ratio (DBU)	35.87%	32.82%	
Liquidity coverage ratio (All currency)	222.88%	304.28%	
Net stable funding ratio	146.23%	146.06%	

Economic Value Creation

LKR 6.0 Bn

Salaries and benefits to employees

LKR 6.2 Bn

Taxes to government

LKR 1.2 Bn

Dividends to shareholders

LKR 4.8 Bn

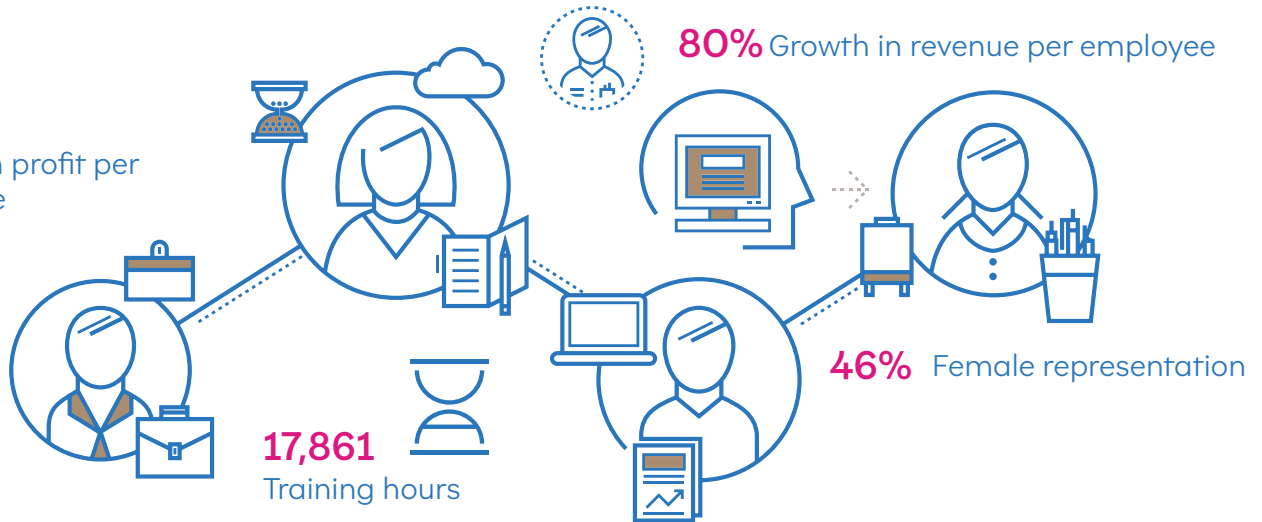
Payments to suppliers



A Strong Employee Value Proposition

16.6%

Growth in profit per employee

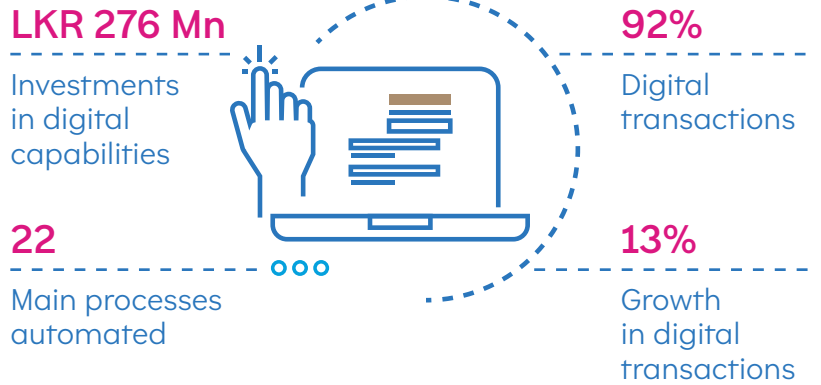


Relationship Capital

700k Customers	33 Correspondent Relationships
1,133 Suppliers	17 Exchange Houses



Key Digital Highlights



Commitment to the Environment



7.4 MT
Paper Savings



1,611 KWh
Energy intensity per employee



2,742 tCO₂e
Carbon Footprint



59%
Loans and advances screened for social and environmental impacts

Chairman's Message



Dear Stakeholder,

I am pleased to present the Integrated Annual Report and the Financial Statements of Nations Trust Bank PLC for the financial year ended 31st December 2022.

Despite the challenging and volatile macroeconomic conditions prevalent for most of the year, the Bank recorded a strong performance for the year under review, supported by its strategy of building resilience across its business verticals, strong risk management, a cautious and selective approach to lending and continuation of its productivity and cost saving initiatives.

Operating Context

During the year under review, there were numerous challenges and macro-economic pressures emanating from a precarious external financing position, including a severe fuel shortage, scarcity of essential commodities, food and medicines and disruptions

to power supply. The deteriorating external financing position coupled with a decline in tourism earnings and remittances impacted Sri Lanka's foreign exchange reserves which compelled the Central Bank of Sri Lanka (CBSL) to introduce several measures to limit foreign currency outflows from the banking system. The CBSL undertook significant policy rate hikes to curtail spiralling inflation and support the currency while increases in both direct and indirect tax rates were announced along with fuel pricing adjustments and proposed revisions to increase electricity tariffs to have market reflective pricing mechanisms to reduce the cost of subsidies to the Government. The country witnessed a record depreciation of the Rupee from March 2022 onwards, post the floating of the currency, due to the previously pegged exchange rate not being reflective of market rates. Given the perilous foreign currency reserves position of the country, in April 2022, the Government of Sri Lanka declared a pre-emptive measure of suspending the servicing of almost all of its external debt obligations, including

international sovereign bonds, bi-lateral loans and facilities guaranteed by the Government. These measures, naturally, had a significant impact on the banking industry with significant challenges arising on account of foreign exchange liquidity, in particular, together with pressures on impacts on capital arising from the downgrading of the sovereign credit rating of the country. I am proud of the manner in which the Bank has navigated the numerous challenges and come out strong through these multiple crises and thankful to the Board, Management and the entire Team at the Bank for their support, commitment and unwavering resolve.

The last quarter of 2022 witnessed a welcome moderation of inflation and a marginal trending down of interest rates, which is expected to continue in 2023. Tourism recorded a gradual pick up with a 124% growth in earnings although it is yet to reach pre-pandemic levels. Worker remittances also picked up in the last quarter with timely action to limit the informal sector but remained well below 2021 levels. Exports remained the main source of foreign exchange

recording healthy growth. Notably, the country recorded a trade deficit of US\$ 5.2 Bn, the lowest since 2010 as imports were curtailed. Downside risks remain, heightened by a further moderation in the global economic outlook, persistent inflation and escalation of geopolitical factors. While the first half of 2022 was characterised by the socio-economic impacts and political uncertainty, the country has seen some level of stability with an improved macro-economic environment on the back of strong policy measures which were necessary to strengthen the fiscal position of the Government. The engagement with the IMF has progressed well with expectations that an agreement will be announced by the end of the 1Q2023. While this will result in restoring confidence to a great extent and also support from multilateral funding agencies, it is imperative that the Government expeditiously implements the necessary social safety nets and support for the vulnerable segments of the country.

Performance Oversight & Risk Management

The focus and vigilance of the Board was heightened during the year in response to the socio-economic stresses that developed, with heightened monitoring of the impacts on the key risk areas and overall performance of the Bank. The focus on a returns focused strategy which pivoted on managing risks and optimising capital, combined with selective growth through this turbulent period, proved fruitful. As a result, Nations Trust Bank delivered a profit growth of 8% to record LKR 7.2 Bn as Profit After Tax, a noteworthy achievement in a year in which many of its peers in the industry recorded a decline in profits. The Bank recorded an encouraging Return on Equity of 17.1%, reflecting the previously mentioned focus on returns.

This approach enabled absorption of impairment which increased by 270% to LKR 13.8 Bn, reflecting the pressures on the banking industry. The Bank was well positioned with minimal exposure to International Sovereign Bonds and has made higher than necessary provisions after conducting stress tests to determine tolerance levels. We have also taken a prudent approach in our provisioning for potential losses in the loans and advances portfolio despite a 2.6% Stage 3 loan ratio, which is well below the industry norms. We have also factored in the potential materialisation of downside risks in the year ahead, strengthening capital buffers to withstand foreseeable credit losses.

Cost management was another success area for the Bank which recorded a decline in the Cost to Income ratio for the 07th consecutive year, decreasing from 56% in 2016 to 30% as at 31st December 2022. Digitalisation and a reduction in head count which was managed through natural attrition were key contributors to this important ratio combined with an organisation-wide awareness of the need to manage this key measure.

Risk and capital management were key to navigating 2022 and the Banks Capital Adequacy Ratio stood at 16.31% at the close of the year, well above the regulatory requirement. The capital buffers proved sufficient to support absorbing the impairments and enabled the Bank to navigate the volatile environment with a strong capital base without a need for capital raising during the year. The Statutory Liquid Assets Ratios for the Domestic Banking Unit and the Offshore Banking Unit were 35.87% and 25.68% respectively, affirming the sound liquidity management of both books.

The focus on a returns focused strategy which pivoted on managing risks and optimising capital, combined with selective growth through this turbulent period, proved fruitful. As a result, Nations Trust delivered a profit growth of 8% to record LKR 7.2 Bn as Profit After Tax, a noteworthy achievement in a year in which many of its peers in the industry recorded a decline in profits. The Bank recorded an encouraging Return on Equity of 17.1%, reflecting the previously mentioned focus on returns.

Chairman's Message

Nations Trust will maintain its prudent approach to optimise returns while balancing asset quality and liquidity. This formula has served the Bank well during the years of uncertainty. A widened scope of data analytics, rigorous stress testing and objective conversations underpinned management of our exposures in 2022 and we will continue this practice.

Other Board Priorities

IT Governance

The Bank continued to invest in digitalisation of its processes, seeking to empower customers to manage their transactions as well as finances through improved capability. This has been extremely well received by our customers with 92% of transactions carried out through digital platforms. High levels of customer engagement have supported the successful outcome. Internal process automation has been another key success area for digitalisation with reduced intervention by employees across processes, supporting the decline in the cost to income ratio. On-boarding the customers through digital channels, encouraging them to transact through digital means have further curtailed costs whilst making opportunities to increase revenue through fee-based income.

Digital transactions increased by 13% reflecting the successful on-boarding of customers to digital channels in the recent past. There are more opportunities to seize as well as increased cyber risks to monitor and manage in this rapidly evolving field. The Board continues to monitor investments, outcomes and impacts of its digital capital as it is a key strategic pillar.

Integrating ESG

The bank continued to enhance the integration of ESG aspects to the operations of the Bank in a holistic manner. At present, all loans above LKR 25 Mn are screened for social and environmental compliance. There are several initiatives to reduce our carbon

footprint and raise awareness of the need to preserve our environment. The Board has established a process for a Board-led ESG agenda supported by expanded systems, processes and controls that facilitate monitoring and reporting progress in this vital area.

Leadership & Succession

Nations Trust has had a strong succession plan in place for many years, facilitating a smooth transition between people who step into key roles. As mentioned in my previous message, there was a transition of the Chief Executive Officer in April 2022 as Mr. Priyantha Talwatte stepped down from his position after many years of service at the Bank. Mr. Hemantha Gunetilleke was appointed as the Chief Executive Officer with effect from 3rd April 2022 and has led the Bank in the last three quarters of the year, delivering a strong performance in a challenging year.

As informed to the Colombo Stock Exchange, I will be retiring as a Director and Chairman of the Board with effect from 30th April 2023, having served the stipulated maximum 9 year tenure as a director of the bank, in compliance with Direction No. 3(2)(ii) (A) of the Rules of Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka. Ms. Sherin Cader will take over as the Chairperson of the Board of Directors, with effect from 01 May 2023, as resolved by the Board at its meeting held on 25th January 2023.

Our People & Culture

We are indeed fortunate to have a strong team aligned to common goals within a framework of shared values. The Bank has created a culture where diversity is celebrated and skills and experience are nurtured. Inflation and the resultant impact on the cost of living was a key concern during the year. The Board approved measures to support our people during this difficult period, including providing a distress allowance for eligible employees to support them. We also continue to provide flexible working arrangements, recognising the need for work life balance and technology enablement of our people. The Board is committed to the wellbeing of this youthful team that aspires to change the way Sri Lankans bank and value their contribution to keeping the momentum of the Bank moving forward and ensuring unhindered operations throughout the year during the toughest of times, both at work and in their personal lives. I am truly proud of the team and immensely thankful to all our people and their families for the support and commitment through the year.

The way forward

The outlook for the global economy is moderating as the rise in interest rates to curb inflation and geopolitics weigh on forecasts. In Sri Lanka, the economy is expected to contract but pick up pace in the second half of 2023 with improved dollar liquidity supported by confidence through the IMF assistance, a pick-up in tourism and easing of supply side factors, both globally and locally. The positive trends observed in Tourism and Worker Remittances are expected to continue in 2023. Exports will be a key sector to watch in 2023

given the uncertain global economic outlook for the year. The foreign currency denominated debt restructuring remains a key uncertainty in 2023 and we continue to monitor developments in this area although our exposure is one of the lowest in the industry. The significant uncertainty surrounds the possibility of a domestic debt restructuring although the framework of this is unknown. The Bank has stress tested its capital and liquidity under various scenarios and remains confident of its ability to navigate such impacts. The effects of increased taxation is expected to weigh on growth and consumer sentiments and this needs careful monitoring as it comes during a period of high inflation as well. These contribute to elevate credit risk and market risk factors across the industry.

Nations Trust will maintain its prudent approach to optimise returns while balancing asset quality and liquidity. This formula has served the Bank well during the years of uncertainty. A widened scope of data analytics, rigorous stress testing and objective conversations underpinned management of our exposures in 2022 and we will continue this practice.

Appreciations

On behalf of the Board, I convey my appreciation to the Nations Trust Team led by the new Chief Executive Officer Mr. Hemantha Gunetilleke who has delivered a commendable performance in one of the most challenging years.

I thank the outgoing CEO, Mr. Priyantha Talwatte for his invaluable and long-standing contribution to the bank and wish him success in his future endeavours. I thank our investors, customers and business partners who have supported our journey and count on their continued trust and confidence in the years ahead. A special mention is warranted of the support and guidance

provided by the officials of the Central Bank of Sri Lanka amidst multiple challenges. In conclusion, I wish to thank the Board members for their invaluable contributions and unstinted support during my tenure as Chairman. I also wish Ms. Sherin Cader success as she takes over the reigns in May 2023.

Thank you.



Gihan Cooray
Chairman

23rd February 2023
Colombo

Chief Executive Officer's Review



Dear Stakeholder,

A long-term view and a focus on the right way forward were critical to our emergence as a strong and agile force in a banking industry that faced multiple systemic challenges from the years of unprecedented socioeconomic turmoil.

Innovation, service excellence, teamwork and adherence to prudent banking practices enabled Nations Trust Bank (NTB) to record the highest ROE in the country's banking sector of 17.1% in 2022. Despite the economic turmoil that prevailed during the past 3 years, the Bank is confident on its new growth trajectory and is poised to lead the industry across key growth, profitability and prudential indicators.

A Strong Start

In hindsight, the pandemic was the catalyst that prepared the Bank to face the economic crisis in 2022. With the onset of the pandemic in 2020, we focused on redefining our business models, de-risking certain asset portfolios and expanding into lower risk asset classes while, applying the brakes in readiness for the rough terrain ahead. Our deposit

franchise was strengthened to ensure that the Bank was highly liquid in terms of both LKR and Foreign Currency which we believed was the right thing to do in times of extreme uncertainty. We challenged our operating models, undertook some deep work to drive cost efficiencies and redefined how we worked which proved to be extremely effective.

Several years of sustainable growth in profitability has resulted in a build-up of the Bank's capital reserves. These reserves along with the support of our shareholders, were a great strength as I took the helm at the height of the country's economic crisis.

NTB therefore, went into 2022 as a Bank with prudent banking practices, a stable credit portfolio, high liquidity ratios and strong capital buffers well above the minimum regulatory requirement.

Importantly, the Bank is also managed by a highly professional and motivated team of bankers. Our customers undoubtedly represent the best in the market and all these factors, together, gave us a strong impetus for growth in 2022.

The Right Way Forward

In spite of the challenging environment around us, we were single mindedly focused on delivering an exceptional banking experience to our customers. Always positioned as a premium bank, we sought a deeper connection with our discerning customers to redefine banking in both the physical space and the digital space. Our customers played a key role in our digital transformation with over 10,000 consultations to help us identify their pain points and wish lists. This exercise played a key role in changing their digital experience while catering to their lifestyles. Today, over 92% of our customer transactions are fulfilled digitally.

We also reimagined banking in the physical space, transforming our Private Banking Centre and several new branches to functional but warm and human centric spaces with unique features to take our customers beyond banking.

Early de-risking of portfolios across all business verticals was a critical success factor that placed the Bank in a position of strength. The impact of the debt repayment suspension of foreign currency

denominated sovereign debt has been minimal with adequate provisions being made in 2022 for the possibility of a sovereign debt restructuring.

Our prudent credit policies also mean that we have minimum credit exposure to some of the most impacted industry sectors and entities. These factors have ensured that the Bank is able to report a stable position on Stage 3 loans.

Throughout the year, the Bank remained highly liquid in both LKR and Foreign Currency as a result of the continued trust our deposit customers place in the Bank. All this affirms that by adopting prudent banking practices, we were successful in crafting the right way forward, navigating the potential pitfalls of risk to ensure the Bank remained on a steady growth path despite the extreme uncertainty around us.

A Stellar Year

The Bank recorded its highest Profit After Tax of LKR 7.2 Bn, an increase of 8% in a year that saw profitability of the banking industry decline due to increased impairment. Revenue growth of 67% to LKR 38.8 Bn played a key role as timely repricing of assets and liabilities aided by increasing interest rates combined to enhance Net Interest Margins.

Fee based income increased by 10.7% to LKR 6.7 Bn despite significantly reduced imports as healthy dollar liquidity enabled us to grow export business.

Impairment increased sharply by 270% to LKR 13.8 Bn, reflecting the macroeconomic conditions although the increase compares favourably with the Banking industry which recorded an increase of 278% as at 3Q2022, evincing the successful de-risking of credit portfolios.

The deep work undertaken on cost management is evidenced by the modest increase in expenses of 26.7% in a year marked by persistently high inflation which peaked at 73.7%, closing the year at 59.2%. The Bank's Cost : Income ratio dropped from 56% to 30% during the last 7 years.

Profit before tax increased by 29.4% to LKR 13.4 Bn reflecting the execution of a prudent strategy that delivered on the key performance indicators. The increase in income tax rates from 24% to 30%, VAT rate increase from 8% to 15% and introduction of Social Security Contribution Levy resulted in the effective tax rate increasing from 36% to 46% which also impacted ROE.

The clear articulation of strategy, undertaking deep work where needed to refine the detail and pursuing opportunities within a carefully defined space paid off, as these initiatives helped us make the right choices.

People & Culture

A team of 2,479 people were responsible for delivering our strategy and I am fortunate to have an energetic, ambitious and young team of professionals who are eager to reimagine and redefine banking for a new and emerging Sri Lanka. The Nation's Spirit embodies Trust, Agility, Proactiveness, Excellence and Collaboration and this is reinforced throughout our interactions on a day to day basis. The Nations Spirit is the common thread that runs through our team of 2,479 diverse people and together we are determined to deliver the Right Way Forward.

Integrating ESG

NTB has championed education and environmental conservation over the years and this continued in 2022, albeit at a reduced pace, due to the multiple crises communities faced during the year. The Bank continued its association with the National Wild Life and Protection Society by supporting their monthly lectures, the Loris, Warana and Varanam magazines. The sponsorship of the Animal Hospital in Hiyare continues from 2009 with staff involvement and engagement throughout the year. Two schools which cover over 500 students were supplied with desktop computers and four schools were provided with school supplies and uniforms.

We continue to focus on mainstreaming ESG principles into our future business models, understanding the impact that our industry has in directing investment to a low carbon economy. The CBSL Direction No. 5 of 2022 is timely, clearly setting out the expectations of banks in mainstreaming ESG as part of its core strategy. All advances above LKR 25 Mn are screened for environmental and social compliance which has been in place for 6 years. Our paperless initiative has been one of the most successful saving over 7.4 MT of paper in 2022 (Equivalent to 126 fully grown trees) aided by over 80% of customers opting for e-statements. Plans are underway to set up a new unit to drive sustainability initiatives, separating it from CSR programs.

Appreciations

As the Bank records another record year, I am deeply appreciative of all our customers who placed their trust in Nations Trust Bank, our amazing team and the Bank's Chairman and Board of Directors for unstinting guidance and support during a challenging year. I also wish to acknowledge the guidance and support extended by our regulator, the Central Bank of Sri Lanka for guiding the entire banking sector through a difficult year.

The combination of a highly motivated team, guided by a supportive Board of Directors steered the Bank to success through a year of unprecedented volatility and economic disruption. I thank our business partners and investors for their continued support and confidence placed in the Bank and look forward to redefining banking through meaningful and sustainable change.



Hemantha Gunetilleke
Chief Executive Officer/
Executive Director

23rd February 2023
Colombo

Board of Directors



Gihan Cooray
Chairman/Non-Executive
Director



Hemantha Gunetilleke
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



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



Sanjeev Jha
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, Board Credit Committee and a member of 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 John Keells 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 an 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.

Hemantha Gunetilleke*Executive Director/Chief Executive Officer***Date of appointment**

Appointed as the Executive Director/Chief Executive Officer with effect from 4th April 2022

Sub Committee 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 three subsidiary companies of the Bank, namely Waldock Mackenzie Limited, Allied Properties Limited and Nations Insurance Brokers Limited.

Previous appointments

He has been an integral part of the Corporate Management Team of the Bank for the past seven years heading various functions and business of the Bank including Consumer Banking and Commercial Banking. He served as the Deputy Chief Executive Officer of the Bank for two years prior to him being appointed as the Executive Director/Chief Executive Officer in April, 2022.

Skills and experience

He is a carrier banker with extensive international banking experience and a proven track record in Corporate Banking, Credit, Balance Sheet Management and International Trade Finance. He graduated from Warwick Business School, UK in 1996 with a BSC in Management Science and holds a BSC in Financial Services from the University of Manchester, UK. He is an Associate of Chartered Institute of Bankers (ACIB), UK.

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. A member of Human Resources and Remuneration Committee and Board Audit Review 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, Asianet Satellite Communications Limited and Juhu Beach Resorts Limited.

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 Board of TAL Lanka Hotels PLC (Taj Hotels, Sri Lanka)

Board of Directors

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.

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 ACP 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

He brings with him nineteen 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 the 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 of Union Assurance PLC
- Financial Controller of John Keells Holdings PLC

Skills and experience

She counts over 25 years experience in both finance and operations. She has served in diverse fields for companies within the JKH 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

- Deputy Chief of Party - Chemonics/ USAID Sri Lanka Energy Program
- 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
- Head of Private Equity - Lyner Partner (Pvt) 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 Durdans Medical & Surgical Hospitals (Pvt) Ltd.

Previous appointments

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

Skills and experience

He is a professional banker with over 33 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 25th January 2021

Sub Committee 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, Informate (Pvt) Ltd 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

He 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.

He 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 a Doctorate of Business Administration (DBA) from the International School of Management, Paris. He is a Chartered Engineer, Chartered IT Professional and a Fellow of the British Computer Society and Institute of Engineers, UK.

Chandika Hettiarachchi

Non-Executive Director

Date of appointment

Appointed to the Board 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
- He has carried out many assignments for International Development Agencies as a Consultant including International Finance Corporation (IFC).

Skills and experience

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

Sanjeev Jha

Non-Executive Director

Date of appointment

Appointed to the Board 1st May 2022

Current appointments

He currently serves as a Non-Executive Director on the Boards of Paramount Health Care Services & Insurance TPA, India, Maxop Engineering Company Pvt Ltd, India and Jaynix Engineering Pvt Ltd, India. He serves as a consultant to Fairfax Asia Limited which is a subsidiary of Fairfax Financial Holdings Limited, Canada. In addition, he serves as member of the Academic Council for the management institute, Birla Institute of Management Technology, India and is a Mentor with the FinTech Center of Entrepreneurship under the Ministry of Electronics and Information Technology, Government of India. He is also an Advisor to the Hirdaramani Group, Sri Lanka and to CamCom Technologies (Pvt) Ltd, India.

Previous appointments

He served as the CEO and Managing Director of Fairfirst Insurance Limited, Sri Lanka. He was on the advisory Board of Symbo Platform, India.

Skills and experience

He has near four decades of extensive experience in business leadership, strategy and business operations. He is a Fulbright Scholar in Leadership Management from Carnegie Mellon University, Tepper School of Business, USA. He holds a BA in Economics from St. Xavier's Collage, MA Economics from University of Mumbai and Ph.D, Economics, University of Mumbai.

Corporate Management



Hemantha Gunetilleke
Director/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 &
Information Security Officer



Perry Savundranayagam
Executive Vice President
- Treasury/Investment Banking



Sheahan Daniel
Executive Vice President
- Consumer Banking



Gayan Ranaweera
Chief Credit Officer



Arosha Liyanaarachchi
Senior Vice President
- Commercial Banking



Chamila Sumathiratne
Chief Risk Officer



Niluka Gunatilaka
Senior Vice President
- Cards and Consumer Assets



Randil Boteju
Senior Vice President
- Digital Banking and Acquisitions



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



Saara Warnakulasooriya
Chief Compliance Officer



Buddhikka Seelanatha
Chief Information Officer



Menaka Wavita
Senior Vice President - Branches

Vice Presidents



Renuka Senadheera
Vice President - Banking Operations



Rasanja De Silva
Vice President - Branches



Milroy Fernando
Vice President
- Branch Operations & Compliance



Shiyamal De Silva
Vice President - Banking Operations



Vidharshana Perera
Vice President
- Collections & Recoveries (Leasing)



Evan Ranasinghe
Vice President - Management
Reporting & Planning



Asela Wijesinghe
Vice President - Treasury Trading



Nishantha Pathirige
Vice President - Corporate Banking



Shohan Alles
Vice President
- Transaction Banking



Jeremy Gnanapragasam
Vice President
- Lean 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



Jakque Diaz
Vice President - Treasury Sales



Suresh Goonewardene
Vice President - Commercial
Banking - Middle Market Enterprises



Naveendran Anthonypillai
Vice President
- Commercial Banking - SME



Gayanath De Silva
Vice President
- Commercial Credit Management



Nalin Webster
Vice President
- Cards Business Operations



Janindu De Silva
Vice President
- Information Security

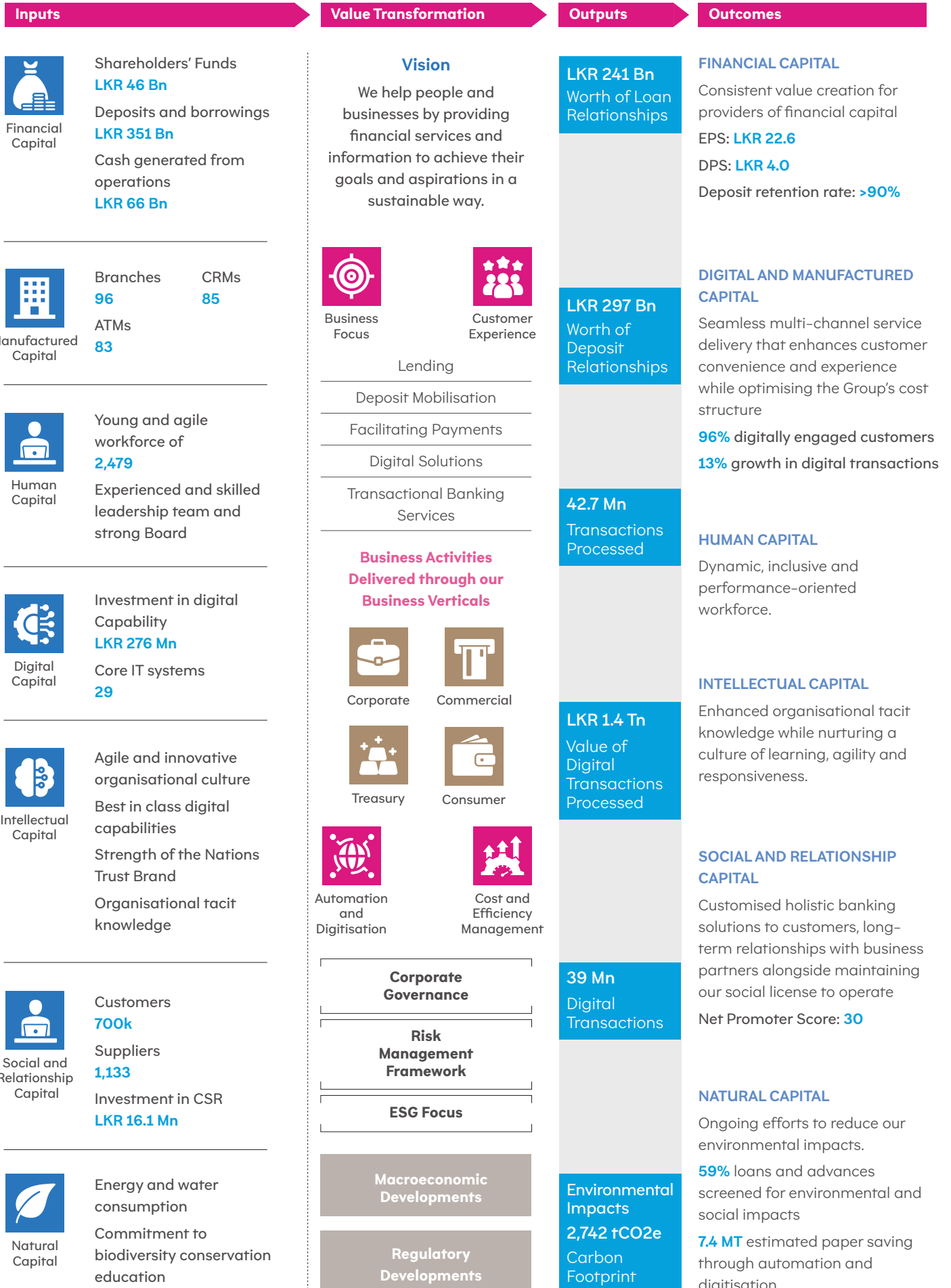


Subash Balendran
Vice President
- Digital Solutions Delivery



Lakshan Wanniarachchi
Vice President
- Structured Finance & Institutional
Banking

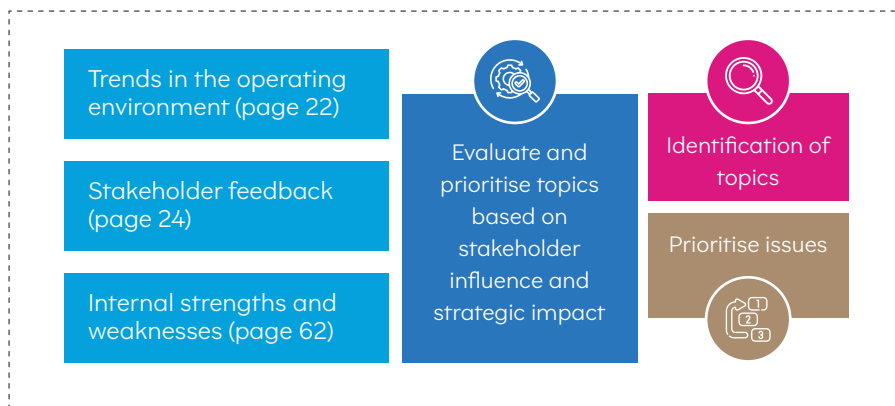
Value Creation Model



Material Topics

The Bank’s materiality assessment takes into consideration emerging risks and opportunities in its operating environment, feedback received from stakeholders and its own strategic aspirations. Our material topics represent issues that could potentially impact our ability to create value in the

short, medium and long term and are key determinants in strategy formulation and risk management. The responsibility of determining material issues lies with the senior management of the Bank. The process for determining material topics is given below.



The developments in the operating environment and ensuing stakeholder concerns led to considerable shifts in the Bank’s materiality landscape. Resilient growth emerged as the key material topic in 2022 given the unprecedented challenges posed by the macroeconomic environment, while talent retention and attraction increased in importance amidst a rise in talent migration.

Cyber security, customer privacy and operational risks were identified as new material topics in line with the Bank’s strategic focus on digitisation. There were no significant changes to the reporting boundaries of our material topics. Our material topics have also been mapped to those prescribed by the GRI Standards and further details can be found on page 216 of this Report.

Material Topic	Materiality compared to 2021	Page reference for further information
Resilient growth	●	238
Customer experience	▲	26
Digitisation	▲	27
Talent retention and attraction	▲	41
Corporate governance and compliance	▲	52
Operational efficiency	▼	39
Training and development	●	41
Managing our impacts	▲	47
Cyber security	New Topic	38
Customer privacy	New Topic	38
Operational risks	New Topic	62
Health and safety	▼	41

▲ Increased in importance ● Unchanged ▼ Declined in importance

Operating Landscape

PESTEL

Economic Environment



POLITICAL

While the power blackouts and shortages of essential items gave rise to widespread national protests during the first quarter of 2022, political stability has since been restored following a change in leadership and the restoration in supply of key essential items.



ECONOMIC

The economic crisis gave rise to unprecedented volatility and uncertainty in key economic indicators which is discussed alongside.



SOCIAL

The economic crisis gave rise to high levels of social unrest in the first half of 2022. However, this was stabilised to a large extent by the year end.



TECHNOLOGY

Increased emphasis on digitalisation has enabled enhanced service delivery while facilitating increased operational efficiency and productivity. However, it has given rise to new risks pertaining to cybersecurity and customer data protection.



ENVIRONMENT

The ability to influence sustainable business practices that minimise environmental impacts through the lending decisions of banks.



LEGAL

Introduction of new regulations pertaining to sustainability, forex, liquidity, interest rates and technology risk management.

Sovereign Credit Rating

Sri Lanka's sovereign credit rating was downgraded to Selective Default (S&P) in the second quarter of 2022, as the government announced a temporary suspension to external debt servicing amidst low foreign currency reserves. The Government is in discussions with the IMF to obtain an Extended Fund Facility of approximately USD 2.9 billion, to restore macro-economic stability and debt sustainability.

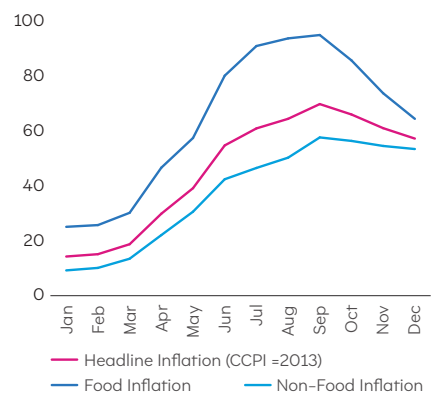
GDP Performance - 9M2022

- 8% contraction in the Agriculture given problems associated with fertiliser usage.
- 11.9% contraction in the Industry sector affected by the energy crisis, high prices and shortages of key inputs, supply chain disruptions and a decline in demand for goods given high inflation and interest rates.
- Service sector contraction was limited to 1.3% given the gradual recovery of the tourism sector.

Inflation

- Headline inflation (as measured by the NCPI) peaked at 73.7% yoy in September 2022 given high global commodity prices, reduced productivity of the Agriculture sector, currency depreciation and the passing through of global oil price movements to the domestic market through the introduction of the fuel price formula in March 2022.
- However, headline inflation has since marked a downward trend, dipping to 59.2% in December 2022.

Inflation



Interest Rates

- The CBSL continued to implement policy tightening measures in 2022 in efforts to curb surging inflation and ease the imbalance in the external sector.
- Consequently, the SDFR and SLFR increased from 5.50% and 6.50% respectively at the beginning of the year to 14.50% and 15.50% respectively but remained unchanged by December 2022.
- AWPR also increased by 1,863 basis points to 27.24% by December 2022, resulting in market interest rates rising accordingly.

Banking Industry

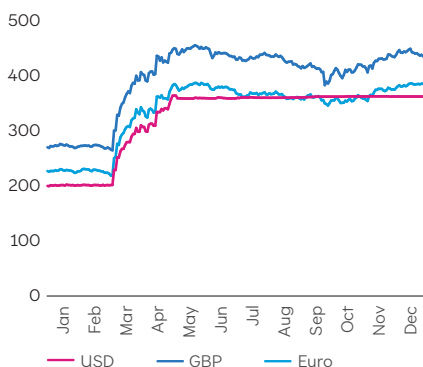
External Sector Performance

- The trade deficit declined 36% yoy to USD 5.1 Bn during Jan-Dec 2022 underpinned by increased export earnings from the textile and garment sector and decreased import expenditure following the restriction on imports.
- The recovery of the tourism industry, increased workers' remittances and the improving trade position resulted in the overall balance of payment deficit declining by 30% during Jan-Dec 2022.

Exchange Rate

- The Sri Lankan Rupee depreciated 81.5% against the US Dollar during 2022 and stood at LKR 363.11/USD as at the year end.
- The SLR depreciated sharply during the first half of the year but remained relatively stable thereafter, following the introduction of the daily permissible band from mid-May 2022.
- Depleting national foreign currency reserves led to a foreign currency shortage in the banking system during the first half of 2022. However, the implementation of policy measures including import restrictions and tariffs and the cautious approach adopted by the banking sector mitigated the stress in the forex market to some extent, by the year end.

Exchange Rates



Assets - 9M2022

14%
growth in total
banking assets

Stage 3 loans to
total loans and advances

10.9% in 3Q2022

7.6% in 3Q2021

8.5%
growth in gross
loans and advances

Stage 3 impairment
coverage ratio

43.6% in 3Q2022

18%
growth in
investments

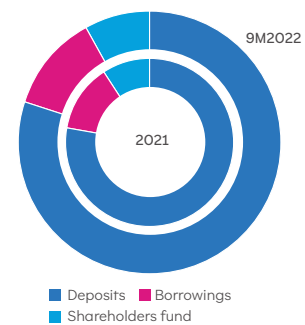
Funding - 9M2022

+17.8%
growth in Deposits

+3.2%
growth in
Shareholders' funds

-1%
Borrowings

Funding Composition



Performance - Y-o-Y

+53.5%
growth in Total Income

+42.7%
growth in Net Interest
Income as loans repriced
faster than deposits
in a rising interest rate
environment.

+92%
growth in Non-Interest
Income

Net Interest Margin

4.2% in 3Q2022

3.4% 3Q2021

Cost to income ratio

29.6% in 3Q2022

39.2% in 3Q2021

driven by income expansion

Operating expenses

**+15.8%
increase**

Profit before
corporate tax

**-18.8% growth
in 3Q2022**



Resultant of higher
impairment charges
given moderating
asset quality.

Capitalisation

	3Q2022	3Q2021
Tier 1 capital ratio	12.5%	12.9%
Capital adequacy ratio	15.3%	16.2%
Common equity Tier 1 ratio	12.2%	12.5%

Listening to Our Stakeholders

The Group is cognizant of the importance of robust relationships with stakeholders in long-term value creation and places strategic emphasis on understanding and addressing the concerns of key stakeholders through honest and regular dialogue. Stakeholder engagement was strengthened further during the year in view of the prevailing uncertainties in the macro-economic environment enabling proactive and timely identification of key stakeholder concerns and facilitating an effective response through strategic intervention.

	 CUSTOMERS	 SHAREHOLDERS
KEY STAKEHOLDERS		
KEY CONCERNS	<ul style="list-style-type: none"> Financial strength and stability amidst uncertainties in the operating environment Superior service quality and convenience Clear and accurate information on financial services provided. Innovative product solutions Fast response times and fair pricing 	<ul style="list-style-type: none"> Financial strength and stability amid uncertainties in the operating environment Robust corporate governance and risk management practices Reputation Transparency
OUR RESPONSE	Delivery of holistic banking solutions tailored to fulfil the specific needs of customers through traditional and digital channels.	Astute implementation of strategic interventions to overcome the challenges posed by the operating environment and deliver long term value to our shareholders.
VALUE CREATED	<p>30 Net Promoter Score</p> <p>>90% Deposit Retention Rate</p>	<p>8% growth in Earnings Per Share</p> <p>LKR 4.0 Dividends Per Share</p>
ENGAGEMENT MECHANISM	<ul style="list-style-type: none"> Digital and local engagement with customers by branch teams and relationship managers (Ongoing) Customer satisfaction surveys (Annual) Market research (Ongoing) Product promotion campaigns (Ongoing) 	<ul style="list-style-type: none"> Annual General Meeting (Annual) Investor forums (Quarterly) Annual Report (Annual) CSE Announcements (Ongoing) Press releases (Ongoing) One-to-one engagement (Ongoing)



EMPLOYEES

- Job security
- Attractive reward structures
- Opportunities for career progression and skill development
- Work-life balance
- Inclusive and equitable work environment

An employee value proposition that involves a rewarding, challenging and inclusive work environment alongside opportunities for growth.

LKR 6.0 Bn

Payments to Employees

LKR 56.4 Mn

Investment in Training

- Employee engagement surveys (Annual)
- Staff meetings at multiple levels (Ongoing)
- Performance appraisals (Annual)
- Employee suggestion schemes (Ongoing)
- Grievance reporting procedure (Ongoing)
- Work-life balance events (Ongoing)



BUSINESS PARTNERS

- Opportunities for mutual value creation
- Timely payment
- Ease of doing business
- Good business practices

Nurtured long-term strategic partnerships and drove mutual value creation through collaboration and sound business practices.

LKR 4.8 Bn

Payments to Business Partners

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



GOVERNMENT

- Regulatory compliance
- Support the Government's efforts to drive the country's economic recovery
- Timely payment of statutory payments
- Job creation
- Financial inclusion

The Bank's dedicated compliance unit ensures ongoing compliance with all rules, regulations and guidelines.

LKR 6.2 Bn

Tax Payments

Compliance with all laws and regulations

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



COMMUNITY

- Employment generation
- Positive community impacts
- Good business practices

Continued investments in impactful community and environmental initiatives.

LKR 16.1 Mn

Investment in CSR

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

Delivering Our Strategy

Nations Trust's strategy has been formulated taking into consideration the dynamism of the external environment and its own unique capability of building a future-fit, competitive bank and is centred around the four pillars discussed below.

Our Strategic Pillars



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.

Key Highlights in 2022

- Strengthened the Bank's liquidity position to ensure financial stability.
- Pursued growth opportunities in selected industry segments including exports and local manufacturing.
- Minimised exposure to foreign currency sovereign bonds.
- Leveraged on cross selling to provide customers with comprehensive banking solutions and drive growth.
- Preserved portfolio quality by strengthening monitoring and underwriting practices supported by data analytics.

Key Performance Indicators

- Revenue growth of 67%
- Stage 3 ratio of 2.56% (2021: 2.09%)
- International Sovereign Bond and Sri Lanka Development Bond exposure – 2.6% of total assets
- Deposit growth of 11%

Way Forward

- Pursue growth in selected industry sectors.
- Relentless focus on maintaining portfolio quality
- Maintain a strong liquidity position to ensure financial stability.



CUSTOMER EXPERIENCE

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

Key Highlights in 2022

- Strengthened one-to-one engagement with customers to address concerns about the developments in the external environment.
- Enhanced the Bank's service proposition by
 1. Providing holistic banking solutions customised to fulfil the specific needs of customers.
 2. Transforming the customer banking experience through best-in-class digital capabilities.

Key Performance Indicators

- Net Promoter Score: 30 (2021: 35)

Way Forward

- Continued focus on enhancing the customer experience through holistic, personalised banking solutions.
- Augmenting the customer value proposition by leveraging on the Bank's digital strength.

Strategic emphasis on maintaining a strong liquidity position, minimizing exposure to sovereign risk, relentless focus on maintaining portfolio quality alongside ongoing efforts to build a lean and agile operating model has enabled the Bank to successfully navigate the challenges stemming from the macro-economic environment while positioning it for long-term value creation.



COST AND EFFICIENCY MANAGEMENT

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

Key Highlights in 2022

- Consolidated and optimised the physical network alongside the digitisation of service delivery.
- Continued automation and optimisation of processes, thereby increasing efficiency and productivity while minimising costs.
- Optimised staff requirements and redeployed staff to right sized teams.

Key Performance Indicators

- Cost to income ratio declined to 30% (2021: 39%)
- Operating expenses increase of 27% is lower than Revenue growth
- 22 main processes automated

Way Forward

- Rationalising operational expenses through continued emphasis on automation and optimisation of processes and staff.



DIGITISATION AND AUTOMATION

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

Key Highlights in 2022

- Launched several new digital features across the customer journey including a Chatbot to respond to customer queries and E-box services.
- Re-launched Nations Direct Enterprise with new features that included government payment capabilities and enhanced trade financing features.
- Ongoing investments in enhancing data security and customer data protection.
- Streamlined the Bank's data analytics capabilities through the data warehouse project.
- The Digital Ready Human Capital initiative that leveraged on the Bank's digital capabilities to align people and processes.
- In-house development of digital solutions that can manage the entire customer lifecycle.

Key Performance Indicators

- 92% of transactions completed digitally (2021: 87%)
- 13% growth in digital transactions
- 96% digitally engaged customers
- 80% of customer queries resolved through the Chatbot

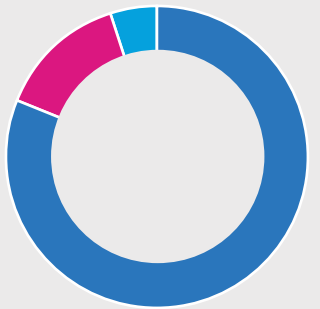
Way Forward

- Continued investments to upgrade the Bank's digital infrastructure to enhance the customer experience, operational efficiency and the Bank's data analytics capability.
- Investments in digital technology that facilitate a Share-of-Life value proposition to customers.

Business Line Reviews

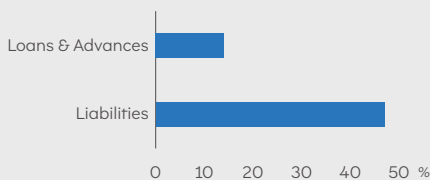
CORPORATE BANKING

Composition of Revenue



■ Net Interest Income ■ Fee Income
■ Other Income

Growth in Assets and Liabilities - Corporate



Operating Environment

- Sri Lanka rupee depreciation
- Dollar liquidity shortage
- Rising interest rate environment
- Subdued demand for credit

Our Strategic Response

- Pursued growth in export and local manufacturing segments
- Relentless focus on preserving portfolio quality
- Leveraged the Bank's strong digital capabilities to provide customers with customised holistic banking services that fulfilled their specific needs.

Outlook

- Maintain focus on export and local manufacturing segments
- Explore new opportunities in green financing and agriculture related lending.
- Expand cash management services
- Maintain digital thrust to provide superior service to customers.

Performance in 2022

A timely strategy centred on exploiting emerging opportunities while prudently managing portfolio quality, effective margin management and strategic emphasis on expanding fee-based income enabled the Corporate Division to deliver strong performance during the year.

Lending Strategy

- The Corporate Division pursued growth opportunities in the export and local manufacturing segments in line with the developments in the economic environment.
- Focused on providing comprehensive banking solutions to customers leveraging on synergies across business verticals.
- The Division's lending strategy was underpinned by its superior service proposition, strong relationship management and faster turnaround times in approving and disbursing credit given its digital strength.

Preserving Asset Quality

- The Division maintained its relentless emphasis on preserving portfolio quality through strong monitoring and ongoing customer engagement.
- Continued support was extended to customers facing repayment pressure in view of the developments in the macroeconomy through customised financing solutions.

Transactional Banking Services

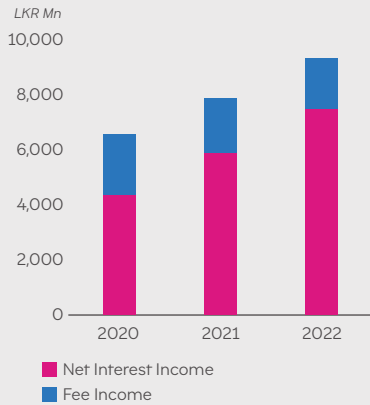
- Strategic emphasis on expanding transactional banking services such as cash management and trade finance supported increased fee income.
- The Division introduced a range of bespoke transactional banking solutions to selected sectors.
- This was upheld by the Bank's strong digital banking proposition resulting in a significant increase in online transaction volumes.

Digital Experience

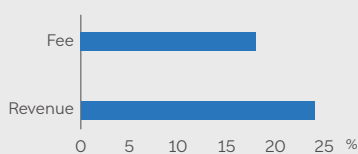
- The Division continued to leverage on the Bank's best-in-class digital capabilities to offer convenient and pragmatic solutions to its customers.
- The Bank relaunched the corporate online platform, Nation's Direct Enterprise (NDE) with a range of new features that included:
 - Government payment capability
 - Enhanced trade financing features offering customers increased convenience and faster turnaround times.
 - Features that promoted deeper customer engagement.

TREASURY

Divisional Performance - Treasury



Contribution to Group - Treasury



Operating Environment

- Rising interest rate environment
- Dollar liquidity shortage
- High inflation
- Sri Lanka rupee depreciation
- Revision of the sovereign credit rating to SD (S&P)

Our Strategic Response

- A risk based approach with strategic emphasis on optimising the Bank's liquidity position while effectively managing market risk.
- Scenario analysis based on events occurring in other markets that faced comparable circumstances facilitated the anticipation of emerging risks and the fine tuning of strategy.

Outlook

- Proactive management of the Group's forex position by prioritising customer import requirements alongside increased customer acquisition in export-oriented sectors.
- Maintaining a strong liquidity position to meet the Group's lending objectives.
- Strategic interventions to minimise cost of funding.

Performance in 2022

The Treasury Division's performance in 2022 was underpinned by the adoption of a risk-based strategic approach to managing the challenges stemming from the operating environment. Treasury revenue grew by 20% yoy supported by the astute management of its fixed income, foreign exchange and asset and liability management functions; however, bottom-line growth was dampened as the Division absorbed the full impairment of LKR 3.5 Bn on its sovereign exposure during the year.

Key Functions



Fixed Income



Foreign Exchange



Asset Liability Management

Fixed Income

This Division manages the banks investment and trading in fixed income securities

- The Division's strategy to reduce the duration of its Fixed Income portfolio in 2021 proved favourable in 2022 as the shorter duration facilitated a swifter re-pricing of the portfolio amidst rising interest rates.
- Astute management of its investments in sovereign debt resulted in minimal exposure to such instruments.

Foreign Exchange

This Division manages the Bank's foreign exchange risk and facilitate client requirements

- The Bank successfully navigated the foreign exchange crisis by maintaining a strong net open position, enabling it to withstand the impact of the devaluation of the Sri Lankan Rupee.
- Strategic emphasis was placed on prioritising the fulfilment of customer foreign exchange requirements and penetrating the export sector.

Asset Liability Management

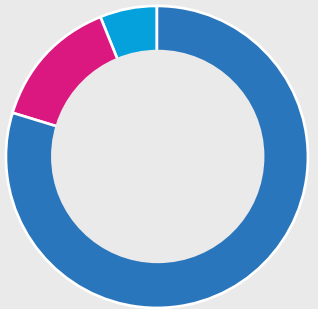
Responsible for ensuring the Bank achieves the optimum funding mix, asset pricing and liquidity.

- The Bank successfully managed its cost of funding in a rising interest rate environment by generating low cost rupee funding through the SWAP market and achieving a healthy deposit rollover ratio exceeding 90%.
- This, coupled with an asset base that comprised primarily of short duration loans on floating basis facilitated NII growth and NIM enhancement.
- Successful management of its dollar liquidity position enabled the Bank to leverage on market opportunities and meet its contractual obligations in a timely manner.

Business Line Reviews

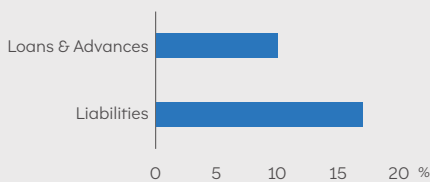
COMMERCIAL BANKING

Composition of Revenue



■ Net Interest Income ■ Fee Income
■ Other Income

Growth in Assets and Liabilities - Commercial



Operating Environment

- Slowdown in economic activity and challenging operating environment due to adverse external developments
- Implications of foreign exchange
- Rising interest rates and inflationary pressure
- Supply chain disruptions due to many external factors including import restrictions

Our Strategic Response

- Customised solutions to support customers to navigate volatile periods and become stronger
- Strengthen customer engagement to manage portfolio.
- Empower team to identify clients with repayment stresses and provide financial advisory services

Outlook

- Pursue growth opportunities in key industry sectors adding value to national economy
- Continue provision of customer centric solutions through superior service and digital delivery
- Maintain focus on portfolio quality through close engagement

Performance in 2022

Despite macroeconomic pressure, the Commercial Banking Division focused on consolidating and preserving the portfolio quality through continuous monitoring and proactive engagement. This approach improved the Division's performance with higher growth in profitability during the year.

Lending Strategy

- The sector focused on expanding relationships in the export sector and domestic manufacturing sector with import substitution activities.
- Offered access to credit lines at concessionary rates from the Saubhagya scheme and ADB funding lines mainly for COVID-19 impacted clients. Further, the unit facilitated increased disbursement under ADB long-term and working capital funding schemes for eligible clients.
- Emphasis was placed on sustainable financing to develop the SME sector and funding women led businesses.

Portfolio Management

- One-to-one engagement with customers to build long term relationships and offer holistic solutions with guidance in cashflow management.
- Focused approach by lending teams on portfolio quality thus ensuring timely corrective action.
- Customised repayment solutions provided to support business sustenance and recovery from liquidity stress.
- Financial advisory services provided through interactive sessions with the involvement of internal and external resource personnel.

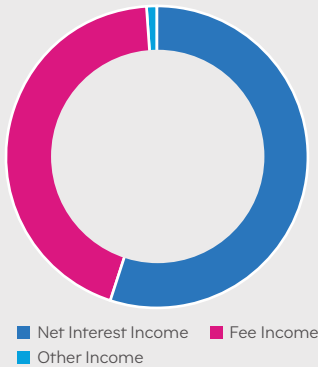
Digital Experience

- Enhancing the customer experience through its digital offerings, Nations Direct Enterprise, which provides an integrated cash management system for commercial customers.
- Increased portfolio migration to digital platforms, with 70% of the Division's transactions conducted online.
- Consistent improvements in managing cost through internal process automation and efficiency focus.

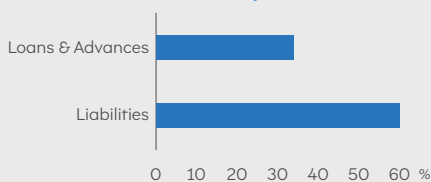
70%
of customer
transactions via digital
channels

CONSUMER BANKING

Composition of Revenue



Contribution to Group - Consumer



Operating Environment

- Rising interest rate environment
- Inflationary pressure
- Subdued demand for credit
- Restrictions on vehicle importation

Our Strategic Response

- Strengthened the Bank's liquidity position.
- Emphasis on preserving portfolio quality while pursuing lending in selected segments.
- Enhanced the customer banking experience through best-in-class digital solutions and unique propositions
- Strengthened customer engagement

Outlook

- Maintain a strong liquidity position through deposit mobilisation
- Consolidate the Division's position in the affluent and mass affluent customer segments through selective wallet share growth and unique value proposition
- Leverage the Bank's digital capabilities to enhance the customer banking experience.

Performance in 2022

The Consumer Banking unit recorded strong performance during the year despite the challenges posed by the operating environment.

Deposit Mobilisation

- The Consumer banking unit launched a deposit mobilisation drive aimed at both existing and new customers supported by proactive customer engagement and a strong digital proposition,
- Key focus area in line with the Group's strategy of building a strong liquidity buffer.

>90%
Deposit
Renewal Rate

Customer Focus

- The Consumer Division consolidated its position in the affluent and mass affluent customer segments.
- Strategic emphasis was placed on providing customers with a holistic banking experience that was tailored to fulfil individual needs.
- The Division also strengthened customer engagement, proactively addressing customer concerns through consistent communication.

Lending

- Strategic focus on preserving asset quality and enriching the customer experience while adopting a cautious approach to growth.
- Portfolio monitoring and underwriting were strengthened utilising analytical scorecards and historical behaviours.

- Growth was pursued in selected customer segments while harnessing cross-selling opportunities to existing customers.
- Credit card segment – focused on Explorer and Platinum card base while enhancing the customer experience by expanding our merchant network.
- Leasing segment – remained impacted by the import restriction on vehicles and high interest rates. The segment continued to exploit cross-selling opportunities in line with the Bank's value proposition of offering personalised holistic banking solutions.

Digital Experience

- Progressive investments in the Bank's digital banking services have enabled seamless service delivery, augmented customer convenience and contributed to quicker turnaround times.
- Improvements were made to the Bank's Mobile Banking App and online banking services during the year, addressing pain points in service delivery while boosting customer data security.
- Meanwhile, FriMi, the Group's fully fledged digital banking experience, continued to strengthen its market leadership position through innovative payment solutions and deepening relationships across the value chain.

13%
Increase in digital
transactions

92%
Digital
transactions

Integrating Sustainability

The Bank is conscious of the growing contribution of the financial sector in driving the transition to a more sustainable economy through the management of its own impacts and the propagation of sustainable business practices through its lending decisions.

Social and environmental consciousness has always been integrated across NTB's business operation and its value chain and is given due consideration when making investment and lending decisions. The Bank's sustainability strategy is centred on measuring, managing and driving improvements in its own impacts while influencing sustainable practices amongst its stakeholders. The Bank's sustainability strategy and key focus areas in 2022 are discussed below.

The Bank's Sustainability Approach is guided by

- 1 UN Sustainable Development Goals
- 2 Sustainable Banking Initiatives (Sri Lanka's Banks Association)
- 3 Sustainable Finance Roadmap 2030 (CBSL)
- 4 Sustainable Finance Activities of LCBs – CBSL Direction 2022

The core pillars of the Bank's sustainability strategy



Environment

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

Social

- Creating an inclusive, dynamic and agile workplace (page 44)
- Supporting women led businesses through targeted lending schemes (page 30).
- Community upliftment through impactful CSR projects (page 47).

Governance

- Ethics, transparency and accountability (page 52)
- Managing environmental and social risks through robust ESMS systems (page 49)
- National and international collaborations to achieve SDGs (page 32)





Financial Capital

The Group continued to deliver shareholder value despite an extremely challenging economic landscape and moving forward with our philosophy of doing the right thing.

Strategic foresight in optimising risk return dynamics, effective margin management, efforts to preserve portfolio quality and its foreign currency liquidity position contributed to delivering the highest profits recorded by the Bank. Healthy liquidity and capital buffers alongside effective management during a period of deteriorating sovereign risk has positioned the Group to capitalise on sustainable and profitable business opportunities.

Value creation in 2022

- Efficient management of cost pool of the Bank with improvement of Cost to Income ratio to 30%
- 17.1% Return on equity

Net Interest Income

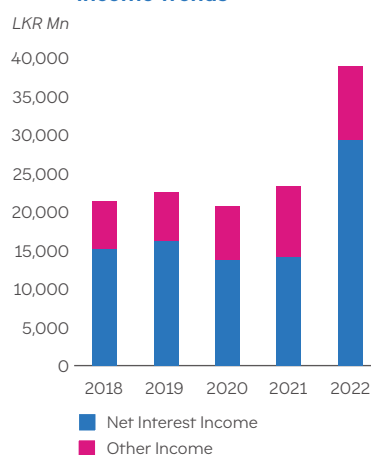
Consolidated interest income surged 90% to LKR 54.3 billion during the year reflecting timely re-pricing of assets which comprised primarily short-duration loans on a floating basis, in a rising interest rate environment. However, interest expenses increased by a more moderate 72% supported by the Group's strategic efforts to manage its cost of funding. NTB continued to leverage its FX SWAP book to generate low-cost rupee funding while a strong customer value proposition that included excellent customer service, best-in-class digital capabilities and proactive efforts to strengthen customer engagement led to a healthy deposit rollover ratio exceeding 90%. Consequently, the Group's Net Interest Income expanded 108% to LKR 29.3 billion during the year while its Net Interest Margin widened to 6.98% compared with 3.85% the previous year.

Other Income

The Group's strategic emphasis on expanding its transactional banking services and increasing penetration in the export segment contributed to an 11% increase in Net Fee and Commission Income to LKR 6.8 billion during the year. Growth stemmed primarily from trade finance and cash management related activities as the Group consciously pursued selective growth opportunities with emphasis on the Corporate and Commercial segments in view of the prevailing external environment. Credit card-related fees and commission income expanded 24%, despite the modest

contraction in the outstanding balance of the credit card portfolio. Net gains from trading increased as NTB leveraged its solid foreign currency liquidity position to capitalise on lending opportunities arising in the inter-bank foreign currency market. However, the revaluation of foreign currency denominated net liabilities in the on-balance sheet contributed to a loss of LKR 11.5 billion due to the currency devaluation reflected in other operating income. Overall, the Group's operating income increased 67% to LKR 38.8 billion during the year.

Income Trends



Impairment Charges

The prevailing stress in the macro-economic environment and the cessation of moratoriums implemented during the COVID-19 pandemic period led to an inevitable increase in Stage 3 loans and impairment across the industry. However, the Group's relentless focus on preserving portfolio quality, leveraging on data analytics to strengthen monitoring

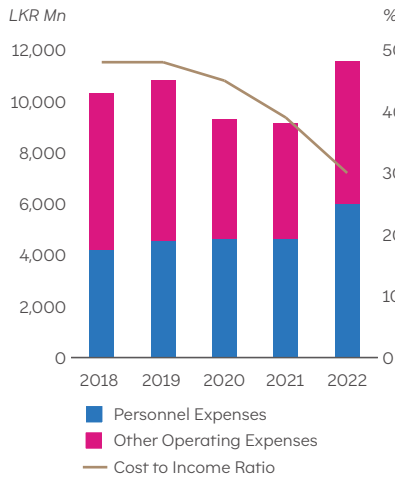
curtailed the increase of its Impaired loan (Stage 3) ratio to 2.6% from 2.1% the previous year, while the industry moved up from 8.4% in Q1 to 10.9% by Q3. The Group also adopted a prudent approach to provisioning, factoring headroom to manage materialisation of potential downside risks in the year ahead. The downgrade of Sri Lanka's sovereign rating also necessitated an increase in the impairment of investment in ISBs and SLDBs although the Group's exposure is relatively low in comparison with the industry. Overall, the Group's impairment increased 270% to LKR 13.8 billion during the year while its impairment (Stage 3) to Stage 3 loans ratio stood at 50.7% (2021: 50.7%).

Cost Management

Despite inflationary pressures, the Group's total operating costs increased to a moderate 27% attesting to its successful efforts at driving cost efficiencies through automation, lean management and enhancement of employee productivity. The Economic Relief Allowance extended to employees in line with the Group's people strategy of fostering employee well-being and retaining talent contributed to a 30% increase in Personnel expenses. Other operating expenses also increased 36% reflective of rising prices. Notwithstanding the increase in costs, the Group's cost to income ratio improved to 30% (2021: 39%) during the year supported by a wider income base. This is well below the industry norm of 66.3% as at end of 3Q2022 reflecting the successful management of this key ratio in a year of significant inflationary pressures.

Financial Capital

Cost Management



Taxation

NTB's Corporate taxes and levies on financial services increased by 68% in view of the improved profitability, increase in income tax rates from 24% to 30%, the increase in Value Added Tax charged on supply of financial services by financial institutions from 15% to 18% and tax reversals considered in 2021 related to Financial Year 2020. Furthermore, the surcharge tax of 25% imposed on companies that earned a taxable income over LKR 2 billion for the year of assessment 2020/2021 through the 2022 Budget amounting to LKR 1.89 billion was accounted against opening retained earnings as per the guidelines issued by the CASL.

Profitability

Notwithstanding higher impairment, pre-tax profits expanded 29% to record the Group's highest ever profits of LKR 13.4 billion reflective of the timely re-pricing of assets and effective management of its cost of funding. However, profit after tax increased 8% to LKR 7.2 billion in view of higher tax payments.

NTB continued to deliver on its shareholder commitments during the year with Earnings per Share improving to LKR 22.6 from LKR 20.9 the previous year, while recording a return on equity ratio of 17.1% (2021: 17.9%). The Group declared a dividend per share of LKR 4.0 for the Financial Year 2022.

Approach to taxation

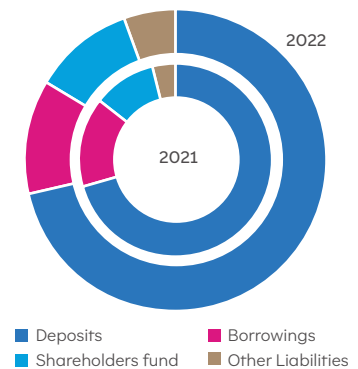
The Group's tax strategy is implemented by a dedicated unit under the purview of the CFO. The unit functions to optimise the Group's tax strategy through proactive tax planning and ensures continued contribution to Government revenue while fulfilling shareholder needs. The Group maintained a cordial and transparent relationship with the tax authorities during the year and was fully compliant with all relevant tax regulations and guidelines. Tax compliance was monitored by the Board on a regular basis.

Financial Position

Asset Growth

The Group's total assets expanded 9% during the year despite a 3% contraction of its loan book, reflective of its strategic focus on optimising risk return dynamics through a selective lending strategy. Accordingly, Corporate and Commercial exposures increased during the year recording growth rates of 14% and 10% respectively while the Consumer portfolio contracted 13%. The Group also sought to strengthen its liquidity position given the prevailing macro-economic environment, resulting in a more than 4 times increase in cash and cash equivalents to LKR 58.7 billion. Resultantly, the Bank's consolidated liquid asset ratio improved to 35.55% (2021: 31.48%) and was well above the statutory minimum requirement. The unprecedented challenges in the macro-economic environment also required a re-classification of LKR 20.96 billion of its investments in Treasury Bonds issued by the GOSL from Fair Value Through Other Comprehensive Income to Amortised Cost in line with the Statement of Alternative Treatment on re-classification of Debt Portfolio issued by the Institute of Chartered Accountants of Sri Lanka. The Group's asset composition tilted towards liquid assets at the year end, in line with its efforts to build its liquidity buffer; resultantly the proportion of loans and advances declined to 58% as at the year end, from 65% the previous year.

Funding Composition



Capital and Funding

Total liabilities expanded 9% underpinned by good deposit growth as the Group actively mobilised deposits to strengthen its liquidity position. Deposits increased 11% led by a 26% expansion in fixed deposits reflective of the rising interest rate environment while the Group's deposit rollover ratio remained healthy, exceeding 90%.

Stated Capital increased to LKR 10.4 billion following the declaration of dividends for 2021, in the form of scrip dividend on the Ordinary Voting and Ordinary Non-Voting Convertible shares of the Bank. Healthy profit generation resulted in a 15% increase in Shareholders' Funds, with equity funding 11% of assets. The Group remains focused on maximizing returns to its equity holders and aims to optimise capital to ensure healthy returns to investors. Consequently, NTB did not raise Tier 2 Capital during the year, considering the cost experienced by many industry peers in a rising interest rate environment. Notwithstanding, the Group's Tier 1 and Overall Capital Adequacy ratios stood at 14.76% and 16.86% respectively at the year end, comfortably above the regulatory requirement. Overall, Nations Trust has a solid funding position to face another year of uncertainty and will maintain its prudent approach to funding and capital management while pursuing selected growth opportunities to maximise ROE.

Digital Capital

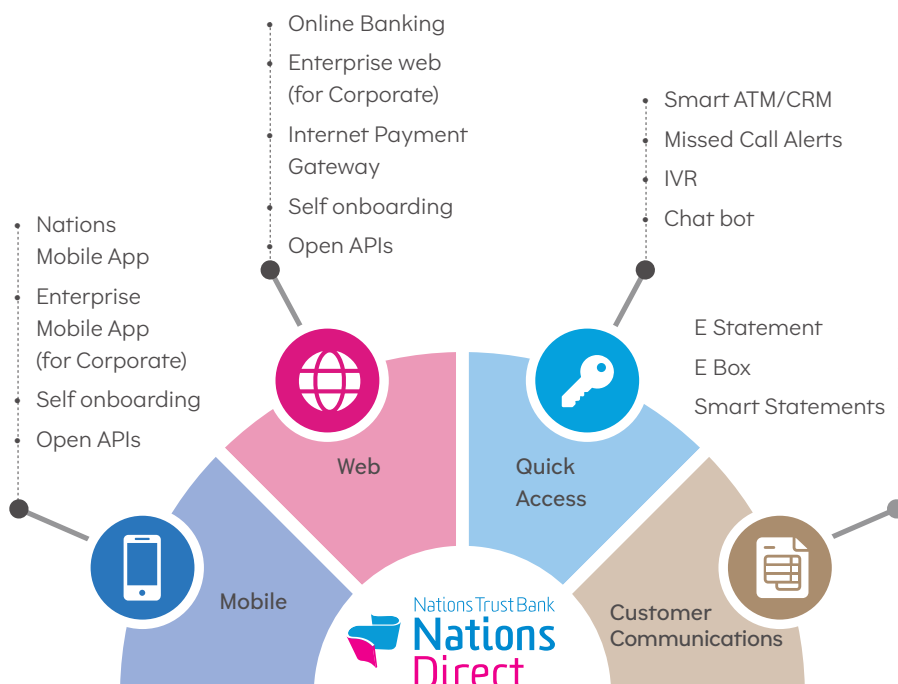
We reimagined banking and the customer experience to suit contemporary lifestyles, leveraging technology to deliver exceptional solutions while strengthening our customer value proposition. Digital Capital is also pivotal in nurturing other capitals such as Human Capital and Intellectual Capital as it shapes how we work and the integrity of our processes, creating a strong competitive advantage.

Value creation in 2022

- Enhanced customer experience through mobile banking and online banking upgrade
- Continued focus on employee productivity improvements and UI/UX
- Reduced turnaround times for key processes
- Paperless customer onboarding & servicing

The bank's competitive edge is underpinned by its superior technology infrastructure and Industry-leading digital capabilities. Under the Nations Direct brand, the bank has embarked on creating a digital first environment where information, data and speed of service takes precedence.

The suite of products under this brand umbrella offers a complete range of enhanced banking and value added services to meet the evolving expectations of our customers.



92%
Total transactions conducted through digital platforms.

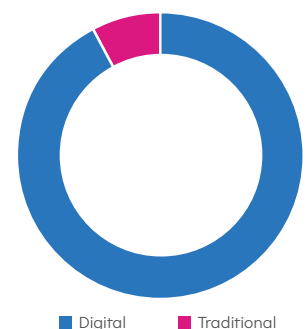
22
Main process automations

30%
Cost to income ratio

96%
Digitally engaged customers

99.96%
System uptime

Digital vs Traditional transaction Ratio

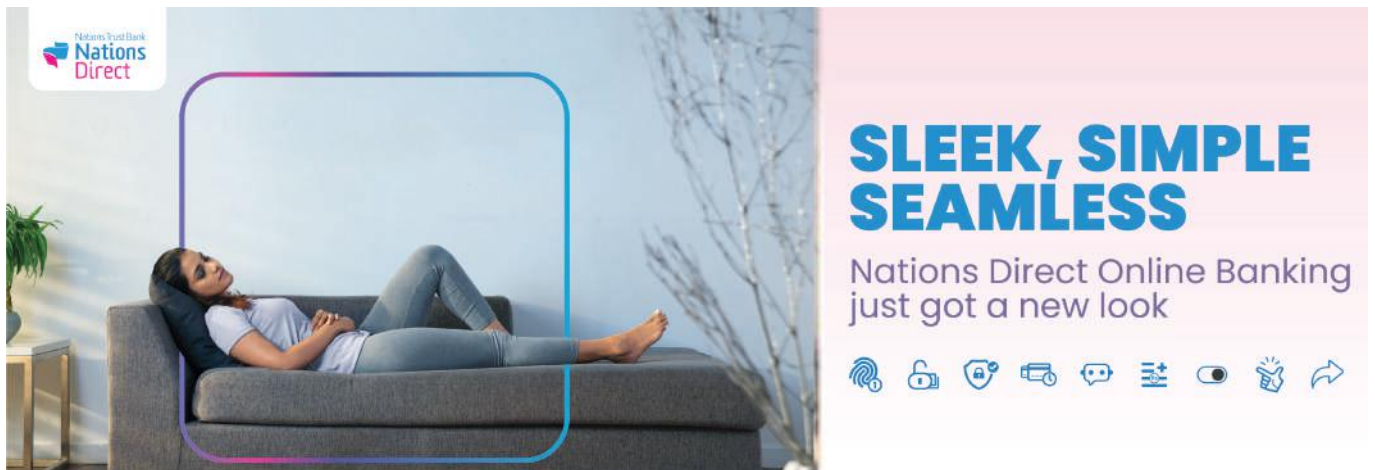


Digital Capital

During the year, the digital transformation journey focused on enhancing the value creation to both external and internal customers as highlighted below:

Reinventing the customer journey

Capitalising on Sri Lanka’s high levels of mobile and internet penetration and increasingly digitally active customer base, Nations Trust Bank accelerated its digital solutions by rethinking the customer journey to provide a seamless omnichannel experience. The in-house technical, business, user, risk, marketing, lean and customer experience teams work together to develop comprehensive best-in-class solutions to transform the customer experience across all business verticals.



Re-platforming Nations Direct Mobile and Online Banking

The Bank launched its next generation of digital banking services through Nations Direct Mobile Banking App and Online Banking services, driving seamless integrating of banking activities into the daily lives of customers. The latest release is built using the latest hybrid technology with a host of customer-centric banking solutions with best in class user interfaces (UI) and user experiences (UX)

This is truly a unique offering as it was developed through direct insights collected from over 10,000 customers who engaged through questionnaires and provided feedback regarding the existing and new applications. Over 1000 selected customers and staff continued engagement for 6 months during the development process. This rigorous process of data collection and testing was used to address the pain points of customers which were carefully mapped, to offer holistic solutions through robust appropriate technology.

Nations Direct Mobile and Internet Banking platforms have been updated to a more straightforward, user-friendly design in order to deliver a seamless omnichannel experience. These platforms offer numerous innovative features and conveniences as listed below;

- A streamlined process to optimise customer journeys and minimize steps for transactions and payments
- Single Sign On feature eliminating the hassle of multiple usernames and passwords
- The Multiple Login option allowing customers to log into several devices at once
- Self-service and supported customer engagements, including a fully functional chatbot to help with query resolution and options for customers to contact Relationship Managers at their convenience.

- Data-driven interactive smart statements
- Money management tools such as shortened fund transfers, receipt sharing, scheduled bill payments and cash tokens for third party payments.
- Options to self-open savings accounts and fixed deposit accounts
- Ability to self-activate and deactivate credit and debit cards, alter PINs and link cards to preferred accounts
- Rewards redemption via online platforms
- Personalisation features including dark mode, quick access bar, trilingual support, nickname settings and font size customisation
- Added security features to set own transaction limits and high-risk verification process safeguarded with biometrics and two-factor authentication

Nations Trust Bank launched the Nations Direct Self Onboarding Platform to accommodate end-to-end, unassisted customer onboarding across multiple platforms which complements the already fully digital assisted customer onboarding platform which is available at all physical locations and channels.

Nations Trust Self Onboarding Platform

Nations Trust Bank launched the Nations Direct Self Onboarding Platform to accommodate end-to-end, unassisted customer onboarding across multiple platforms which complements the already fully digital assisted customer onboarding platform which is present at all physical locations and channels. Developed as part of a larger vision of digitising the entire customer life cycle management, the Nations Direct Self Onboarding Platform allows customers to onboard themselves remotely, while using a fully secure process that maintains the required standards on security and safety.

Performance of Digital Onboarding

Consumer Products	Target	Achievement Dec 2022
Savings Accounts	100%	100%
Credit Cards	100%	100%
Current Accounts	90%	100%
Term Deposits	90%	79%

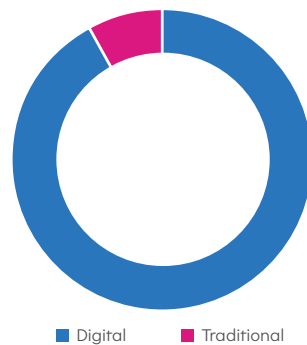
- Video Know-Your-Customer (VKYC) verification for remote meetings of clients.
- Developed in response to evolving customer needs and behavior patterns with thought through UI/UX.
- Eliminates traditional processes of multiple interactions to an almost instantaneous outcome.
- Robotic Process Automation (RPA) of back-end processes with bots to direct customer requests, identity verification and assigning agents for the VKYC process.
- Employees' work experience was transformed through the minimization of mundane monotonous tasks, leading to higher engagement in more challenging high-level duties to create greater work satisfaction.
- Initiatives were taken during the year to enhance the digital capabilities and value addition of employees through education and upskilling programs.

Data Driven Decision Making

Real-time and accurate information through leveraging data has transformed the decision-making process within the Bank.

- The Data Warehousing Project, which was completed during the year, processes the repository of information gathered from each customer touch point and converts them to actionable items.
- Predictive analysis and advanced data modelling techniques are used to gain insights into consumer spending patterns, detect anomalies and govern risks of fraudulent activities.
- Meaningful data analytics and technical backbone has empowered employees and customer lifecycle management platforms already deployed, to make proactive decisions, provide personalised solutions and target promotions to relevant customers.

Traditional Products vs Digital Products



Digitally Enabled Workplace

During the year, the Bank focused on aligning its people and process in ensuring the digital readiness of its human capital.

- Employee productivity was enhanced through 22 process automations of repetitive tasks and continuous improvements through workflow solutions. 92% of financial transactions have been converted to digital.

Digital Capital

Stability and Security

The Bank has continued strengthening its IT infrastructure through investments in the latest technology while improving its in-house development capabilities. The stability and speed of the new digital platforms have been greatly enhanced with the use of industry-first technology, with 99.96% uptime during the year. With the increased thrust towards digitalisation, the bank's data security capabilities, customer privacy and cybersecurity risk framework are continuously assessed for vulnerabilities. During the year, there were no instances of data breaches or substantiated complaints regarding breaches of customer privacy or data losses.

Customer Data Security and Privacy

The Bank is certified in ISO/IEC 27001:2013 Information Security Management Systems (ISMS) best practices

Awards and Recognition during 2022

- Most Valued Credit Card Base and Campaign Promoter were presented to Nations Trust Bank at the Daraz Payment Partner Performance Awards 2022
- FriMi was awarded with a Silver for Best Use of Data and a Merit for Small Budget Impact at the SLIM DIGIS 2.2
- FriMi was ranked 2nd amongst the Most Loved Brands in the FINTECH category by LMD Brand Finance.



Best Use of Data and a Merit for Small Budget Impact at the SLIM DIGIS 2.2



Most Loved Brands in the FINTECH category by LMD Brand Finance



FriMi 5 year celebration



Manufactured Capital

The Bank's physical infrastructure plays an integral role in strengthening customer engagement, new customer acquisitions and fostering brand engagement, thereby driving business growth.

Value creation in 2022

- +11% growth in the deposit base
- >90% deposit retention rate
- Facilitated deeper relationships with customers.

The Group's manufactured capital comprises its physical infrastructure including property, plant and equipment (excluding digital infrastructure) and right of use assets.

Investments in its physical network were limited during the year, given the Group's digital thrust; accordingly the Group's capital expenditure amounted to LKR 193 Mn during the year and was directed towards upgrading and maintaining the branch network.

Management Approach

The Bank's management of its manufactured capital was streamlined during the year through the introduction of a formal committee for the management of its physical infrastructure. The committee comprised representatives from Marketing, Legal, Finance, the Corporate Infrastructure Team and Head of Branches and met twice a month to evaluate the Bank's infrastructure needs.

Branch Operations

The Bank's omnichannel approach to service delivery includes a physical network of 96 branches located island wide. During the year, Nations Trust leveraged its branch network to strengthen customer engagement, proactively addressing customer concerns about the Bank's financial position amidst the uncertainties stemming from the macro-economic environment, thereby facilitating deposit mobilisation and a healthy deposit retention rate. The physical network also

played an important role in identifying growth sectors of the economy and driving asset growth through the delivery of personalised banking solutions and greater brand engagement. Key infrastructure initiatives during the year included;

- Launch of a lounge-style Private Banking Centre with the ambience of an art gallery and featuring an art collection by contemporary Sri Lankan artists.
- Relocation of the Trade and Supply Division to a more spacious and customer friendly location.

Role of the Infrastructure Committee

- Evaluate the Bank's infrastructure requirements.
- Identify maintenance needs.
- Implementation of cost rationalisation measures across the physical network.

96

Branches

85

CRM

83

ATM

LKR 193 Mn

Investment in PPE

LKR 414.9 Bn

Total Assets

Driving Operational Efficiency

The Group continued to re-evaluate and redesign its business processes to build a leaner and more agile banking operation. Key initiatives undertaken during the year included;

- Ongoing automation of the processes at HIVE through the introduction of over 20 new workflows during the year, which resulted in the right sizing of teams, increased productivity and accuracy and cost rationalisation.
- Re-evaluation of existing processes by the Group's Lean Transformation Team and departmental staff and the introduction of new ways of working to drive operational efficiency and enhance the customer experience.



Intellectual Capital

Our ability to transform and elevate the customer experience stems from our team's professional curiosity, relentless drive for innovation, advanced capabilities and brand value built over the years.

Value creation in 2022

Brand strength centred on digital capabilities. Replacing legacy processes with automated processes. Elevated customer convenience through updated digital platforms. Data driven decision making.

Intellectual capital has provided Nations Trust Bank the competitive edge to distinguish itself from the competition in a highly regulated industry with generic products.

A vibrant brand, future-ready systems and the tacit knowledge of a young workforce enable us to drive purposeful innovation suitable for the contemporary lifestyle of prospective customers.

4.1%

Increase in brand value

22

Process improvements

30%

Cost to income ratio

AA-

Brand rating

Brand Value

- Despite being a young bank of 22 years, Nations Trust Bank has gained recognition for its capabilities in the digital sphere, having launched several industry-first initiatives such as FriMi, Sri Lanka's first fully-fledged digital banking experience.
- Complementing its customer-centric approach, the bank continues to be at the forefront of pioneering digitally led solutions to continuously elevate the customer experience, reinforcing its brand value and visibility.
- The Bank continues to be ranked among Sri Lanka's top brands; in 2022 NTB emerged as Sri Lanka's 23rd most valuable brand, receiving an AA- rating from Brand Finance Sri Lanka.
- As a testament, Nations Trust Bank was awarded accolades at the FITIS Digital Excellence Awards & Conclave 2021.

Systems and Processes

- Digitisation throughout the organisation is a strategic imperative as the Bank continues to leverage technology to drive improvements in internal processes.
- Our systems and processes are constantly reviewed and upgraded to stay in line with the evolving business environment.
- Developments in the front-end processes have sharpened our competitive edge by redefining the customer experience through upgraded digital platforms.
- Robotic Process Automation (RPA) and re-engineering critical aspects of the workflow systems have led to considerable cost efficiencies and enabled faster processing with minimal errors.

Pursuit of Innovation

- Differentiating our service offering through transformative technology has remained a priority over recent years.
- The Bank's focus on innovation and digitisation has enabled it to carve a niche in the sector by providing customer-centric solutions delivered through easily accessible and seamless channels.
- Our young team is empowered and encouraged to pursue their professional curiosity and technological inquisitiveness in driving meaningful change within the organisation.



Human Capital

A young and diverse workforce of 2,479 professionals drives growth of the Bank through continuous innovation and resilience.

Value creation in 2022

Increased productivity and efficiency of our team through lean practices. Career opportunities through multi-skilling and competency-based development. Creating a diverse and inclusive work environment.

Management Approach

Nations Trust Bank is a preferred employer in the banking industry owing to the strong internal and external recognition received for its employer brand. The Board has appointed The Human Resources and Remuneration Committee (HRRC) to assist in the governance of relevant labour laws and regulations. A comprehensive HR framework provides guidance on all people-related processes and sets the tone for the ethical conduct of all employees.

The Bank has in place a Health and Safety Policy which covers all employees and no major work related injuries or work related ill health reported during the year.

Team Profile

Our team comprises 2,479 employees of whom 51% are under 30 years of age and is a tech savvy and future ready team that is committed to implementing our futuristic strategy. 1,223 employees have over 5 years of service, contributing to the team's diverse expertise and skill representation. All employees are engaged on a full-time basis while 87% of employees are in the permanent cadre.

2,479
Total employees

87%
Permanent employees

72%
Retention rate

LKR 56.4 Mn
Investment in Training

455
Promotions during the year

46%
Female representation

Employees by Employment Contract and Region

Workforce by Region and Contract	Permanent	Temporary	Total
Western Province	1,708	285	1,993
Southern Province	119	6	125
Central Province	89	5	94
North Western Province	80	9	89
Uva Province	40	1	41
Northern Province	35	4	39
Sabaragamuwa Province	34	5	39
Eastern Province	33	2	35
North Central Province	19	4	23
Overseas	1	-	1
Total	2,158	321	2,479

Employees by Age and Category (%)

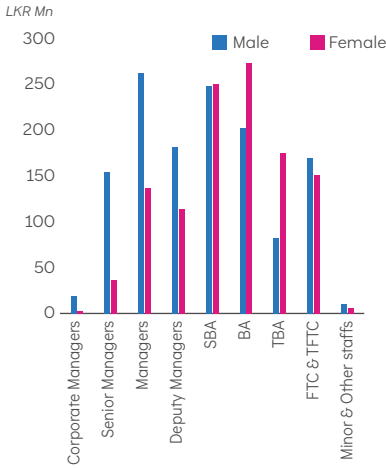
Employees by gender and category	Below 30		30 -50		50 Above	
	Male	Female	Male	Female	Male	Female
Corporate Managers	-	-	10 (0.4%)	2 (0.1%)	9 (0.4%)	1 (0.0%)
Senior Managers	-	1 (0.0%)	142 (5.7%)	28 (1.1%)	12 (0.5%)	8 (0.3%)
Managers	7 (0.3%)	4 (0.2%)	252 (10.2%)	128 (5.2%)	4 (0.2%)	5 (0.2%)
Deputy Managers	47 (1.9%)	23 (0.9%)	132 (5.3%)	89 (3.6%)	3 (0.1%)	2 (0.1%)
Others	478 (19.3%)	714 (28.8%)	226 (9.1%)	141 (5.7%)	9 (0.4%)	2 (0.1%)
Total	532 (21.5%)	742 (29.9%)	762 (30.7%)	388 (15.7%)	37 (1.5%)	18 (0.7%)

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

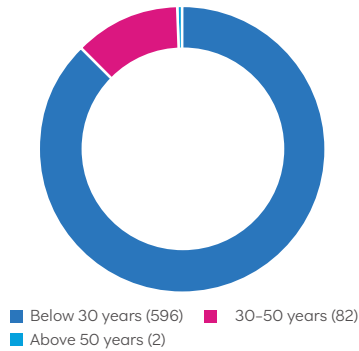
The Bank employs 1,331 males and 1,148 females on permanent basis

Human Capital

Employees by Gender and Category



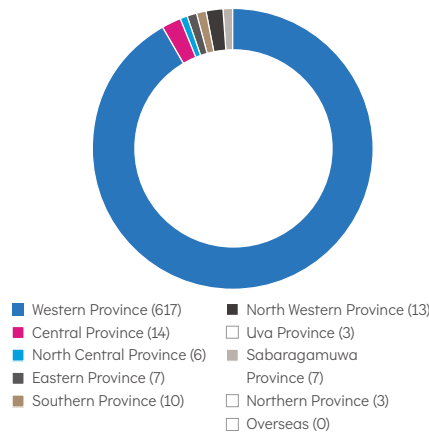
New Hires by Age



Talent Movements During 2021/2022

New recruitment during the year focused mainly on replacement hiring with 680 new employees filling vacancies caused by the industry-wide talent migration. Existing employees were provided with opportunities to apply for vacant positions, with 455 employees being promoted internally, having successfully completed the competitive recruitment process. The Bank has maintained a rate of retention of 72%, while natural attrition has resulted in 28% employee turnover during the year.

New Hires by Region

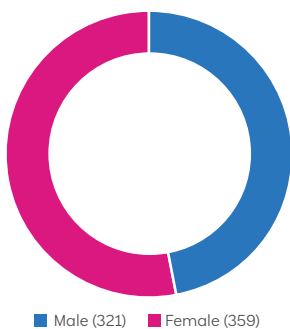


Talent Acquisition and Retention

The past year has seen an unprecedented talent exodus as a result of the country's continued economic difficulties. It has become vital to develop strategic techniques to acquire competent talent while re-evaluating retention strategies for current employees as competition for talent rises. The following initiatives were taken throughout the year to improve hiring;

- Tying up with urban schools, universities and higher educational institutions to recruit the necessary talent profile and established talent pipeline for the future.
- Employing bank trainees and supporting them through structured development.
- Liaising with IT manpower providers to source temporary resources to work on digital projects.
- Establishing the talent management framework to identify and retain high performers.

New Hires by Gender



People Strategy in 2022

The Bank's strategic focus for the year centred on strengthening its Employer Brand while managing its talent pool in a challenging operating environment. Priorities included retaining the talented employees within the bank while building a team of talent that possesses the necessary competencies and mind set to accompany the Bank on its voyage.

Nations Spirit

Our values were relaunched during the year, directly in line with the Bank's overall business strategy, to encourage the behavioural shifts required to propel the Bank towards its aspirations. By developing a comprehensive value proposition for employees, Nations Trust has sought to continuously improve its people practices and establish itself as a preferred employer in the banking sector.

Employee Productivity

To consistently improve the cost-to-income ratio, the Bank continued to focus on automating processes and enhancing productivity. Internal digital enablement has produced company-wide efficiency programs to build a lean and agile organisation in keeping with the Bank's digital journey. Right-sizing the organisation and human capital optimisation have been made possible by automating transaction processing and identifying business unit synergies;

- Employee cadre has reduced from 2,677 to 2,479 during the year
- Improvement in revenue per employee by 80%
- Improvement in personnel cost by 30%

Employee Value Creation in 2022

Employee Engagement and Well-being

As pandemic restrictions eased during the year, the Bank strengthened employee engagement through physical and virtual platforms with various initiatives listed below;

- The psychological and financial well-being of employees was ensured through benefits such as the monthly economic relief allowance offered as a respite from rising cost of living.
- Flexible work schedules continued to assist employees in achieving a better work-life balance and working from home (WFH) facilities were valued by outstation employees and young mothers.
- Staff transport provided at concessional rates
- Ongoing psychological support through access to counselling, efforts that boost confidence such as Toastmasters and stress management activities such as mid-week stress busters for Work from Home employees
- Community building activities during the year included:
 - International Women's Day Celebration
 - International Men's Day Celebration
 - Nations Jam Session
 - Art workshop for Work from Home employees
 - Nations Amazing Race – Cycling Edition
 - Nations Christmas Advent Calendar
 - Cluster Cricket Tournaments – Business Groups, Branches, Digital & IT, Risk & Governance
- Launch of Nations Cycology Club, encouraging employees to cycle to work during the fuel crisis through the provision of complementary cycling kits, training and workshops on bike maintenance, safe parking spaces and shower facilities.
- Women on Wheels – Cycling knowledge sharing session for female employees



Nations Amazing Race – Cycling Edition



Nations Christmas Celebrations



Virtual Townhall Meetings



Launch of Nations Cycology Club



International Men's Day Celebrations



Virtual Townhall Meetings



Women on Wheels



International Women's Day Celebrations



Nations Jam Session (Music Club event)

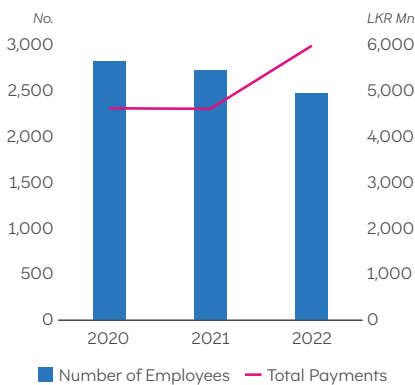
Human Capital

Rewards and Recognition

Nations Trust Bank has fostered a high-performance culture through its transparent and merit-based reward and remuneration systems;

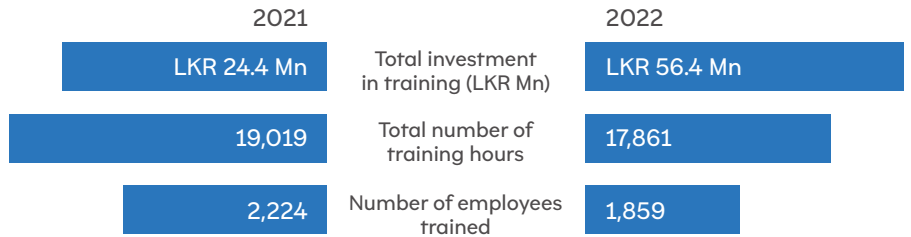
- Employee remuneration is benchmarked against industry standards and is based on a combination of both guaranteed and performance-based components.
- A competency based grading scheme is used for the evaluation of each job role with 100% of permanent employees being appraised during the year based on a balanced-scorecard methodology.
- Special relief allowances to support inflationary impacts
- The remuneration framework advocates building employee competencies to achieve their career aspirations with job-based certifications functioning as prerequisites for promotions.
- Along with the Bank's talent development agenda, 507 vacancies were filled internally during the year and 455 employees were promoted through multi-skilling for upward career mobility.

Remuneration Paid



Average Training Hours per Employee by Category and Gender

	Male	Female	Total
Corporate Managers	6	18	8
Senior Managers	5	8	6
Managers	5	8	6
Deputy Managers	6	8	7
Others	7	8	8
Total	6	8	7



Competency and Capability Building Through Focused Training and Development

The employee development proposition for the year was based on harnessing the talent of the young cadre through training initiatives, to foster an entrepreneurial mentality consistent with the Bank's strategic goals;

- A Talent Management Framework was introduced to identify critical talent, retain high performers and develop interventions for upskilling employees.
- The employee life cycle-based training focuses on structured development of core skills and soft skills to suit each job grade and function.
- An average 10 hours of training per employee was covered during the year.

Training programs during the year include;

- Understanding entrepreneurial mindset & advisory by Dr. Ravi Bamunusinghe.
- Current market outlook series by Dr. Indrajith Coomaraswamy & Ms. Anila Dias Bandaranayake.
- Anti-money laundering, Anti-corruption, Combating of terrorism financing, Sanctions and onboarding of politically exposed people training for branch network and related departments by EY, CBS and Internal series.
- High end sales closing skills development workshop by Sri Lanka Institute of Marketing.
- Coaching for success by Ranjan De Silva, Sensei International
- Meta advertising & search engine optimisation by Mind bait

- Foreign exchange regulations by Internal compliance faculty.
- Nations Direct Enterprise training series by internal faculty.
- Lean six sigma yellow belt training series.
- Negotiation skills training by Tissa Dissanayaka.
- Health and safety training (fire drill and first aid)

Nurturing a Diverse and Inclusive Culture

The Bank's commitment to creating equal opportunities to employees and championing an inclusive work environment is reflected through its HR processes. Recruitment, training opportunities, remuneration and promotions are based on meritocracy, irrespective of gender, age or ethnicity.

We are committed to creating a conducive work environment for females through flexible operating models, encouraging women to follow through on their career aspirations and empowering them to pursue leadership roles.

We maintain a remuneration ratio of 1:1 between males and females at entry level.

The Nations Women program was initiated to build confidence and encourage participation among female employees.

In recognition of the initiatives made to uplift and empower women within the Bank, Nations Trust was recognised as one of the 'Women friendly workplaces' in 2022.

There has not been any significant incident on corruption and all operations have been assessed for risk related corruption.



Social and Relationship Capital

Strengthening and nurturing the relationships with our stakeholders with the view of ensuring long term sustainability in the community we operate in.

CUSTOMERS



Value creation in 2022

Customer convenience through seamless omnichannel experience

The Bank caters to over 700,000 Individuals, SMEs and Corporates through its network of branches and digital platforms.

Primarily focusing on the mass affluent customer segment, growth was driven through cross selling and targeted customer acquisition. Customer experience was the main pivot for each product, service and activity to position NTB as the leading customer centric bank, raising the bar for value creation to stakeholders at every level.

>700k
Total Customers

30
NPS

1,133
Suppliers

LKR 16.1 Mn
Investment in CSR

Customer Experience

- Each customer touch point has been optimised towards elevating the customer experience and minimizing inconveniences.
- Data driven insights into consumer behaviour patterns and in-depth analysis of real-time customer feedback utilised to restructure the operations framework into a modernised system.
 - **Mobile Banking App and online banking services** were upgraded with a suite of customer centric banking solutions
 - **Nations Direct Self Onboarding Platform** was launched for convenient virtual onboarding process compared to the conventional physical process
 - **Nations Business Banking** was relaunched to offer tailor-made financial benefits with a holistic banking experience with the aim of elevating the country's Commercial banking sector.

Customer Engagement

- Our 24x7 Customer Contact Centre is a vital point of connectivity with customers which uses advanced data analytics to maintain high service goals
- Centralised Customer Experience Unit identifies frequent customer complaints and shares insights on process improvements, value adding solutions and training needs facilitating continuous improvement in customer service standards.
- Multiple communication channels are used to maintain an on-going dialogue with customers. Additionally, information on our products are readily available on our website, branches and the Customer Contact Centre.
- There were no instances of non-compliance concerning product and service information and labelling or marketing communications during the year.

Customer Solutions and Support

- Advanced data capabilities used to understand consumer behaviour and predict their lifecycle from a holistic viewpoint
- Proactive measures adopted to keep customers afloat and maintain asset quality amidst volatile market conditions.
- Customers faced with repayment pressure were closely monitored by the Customer Relationship Managers, who were able to take proactive action including granting moratoriums and providing other debt relief measures to maintain business liquidity for customers and asset quality for the Bank
- Over 1,500 customers were provided relief as moratorium amounting to LKR 13.7 Bn in loans during the year 2022.

Social and Relationship Capital



BUSINESS PARTNERS



Value creation in 2022
Strong collaboration with industry stakeholders to drive synergies

Our partner ecosystem is crucial to the seamless operations of the Bank facilitating global connectivity, enhancing our customer value proposition and supporting business continuity.

Accordingly, we have created an ecosystem of strategic partnerships with suppliers, merchant networks, outsourcing and franchise partners, driving mutual value creation through collaboration, trust and sound business practices.

We also liaise closely with industry stakeholders to promote best practices in the Banking Sector through a range of memberships in key industry associations:



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 Banker's 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
- International Chamber of Commerce Sri Lanka
- Sri Lanka Forex Association
- American Chamber of Commerce in Sri Lanka

COMMUNITIES



Value creation in 2022

Continued investments in strategic CSR activities

Community engagement programmes are formulated under the overarching goal of “Empowering the New Generation” centred around the two key focus areas – Quality Education and Environmental Stewardship.

Two operational committees are responsible for the formulation and implementation of the CSR strategy in alignment with the Sustainable Development Goals. 1% of Profit After Tax from the preceding year is allocated for CSR activities of the current year. The Bank’s CSR fund also has the mandate to provide immediate relief to those who are affected by disasters and aim to support underprivileged communities through strategic and impactful CSR projects.

CSR INITIATIVES IN 2022

School Infrastructure and Supplies

- Donated a full year’s requirement of school supplies and essentials to rural schools in Mullaithivu, Anuradhapura and Kebitigollewa.
- Equipped a computer lab for a school donating unused computers within the bank.

6
Schools

>1,000
Students
benefited

Future Orientation of Students

- Partnership with University of Colombo Alumni Association and the student society of Faculty of Science to develop soft skills of undergraduates
- Interactive workshops conducted at the Nations Trust Bank’s Hive Training Center with Senior Management team volunteering for mentorship
- The Bank sponsored the ‘Green Gen’ Conference and awards for environmental competitions

Supporting Local Arts

- Longstanding supporter of the local art industry in championing various art institutions and their events.
- Paintings by local artists displayed at the Art Gallery at the Private Banking Branch.



Art Gallery at the Private Banking Branch



School supplies donation

Food Donation Card Programme

- Nations Trust American Express partnered with Keells to support the ‘Together for a better tomorrow’ Food Donation Card Programme
- Aimed at providing timely assistance to those in need, the donation card will be equivalent to a food bag worth LKR 1,500/- and the project aims to sell 100,000 to support a similar number of families.





Natural Capital

The Bank is committed to understanding and managing the impacts of our operations while driving positive environmental change through our practices and investment decisions.

Value creation in 2022

- Promoting responsible consumption of resources through automation
- Increasing business focus to promote green financing decisions
- Continuing partnerships for biodiversity preservation

Increasing awareness of the need to manage our impacts on the environment and move to a low carbon economy is driving our agenda for managing natural capital. The Bank continues to explore possibilities to chart a course to accelerate the transition to a low carbon economy.

1,611 KWh
Energy intensity
per employee

3,995 MWh
Electricity
consumption

33%
Reduction in paper
consumption

41 Mn Liters
Water
consumption

Management Approach

The Bank's approach to its environmental agenda is guided by the ESG Strategy and underpinned by a comprehensive framework of policies, systems and processes. The Bank is also a signatory to the 'Sustainable Banking Principles for Sri Lanka' by the Sri Lanka Banking Association, which lays out the environmental and social guidelines in decision-making. CBSL also issued Direction #5 of 2022: Sustainable Financing Activities of Licensed Banks and the Green Taxonomy providing further direction to the sector.

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

Carbon Dioxide Equivalent Emissions (Tonnes of CO₂e) – 3 Main Offices

	2022	2021	2020	2019	2018	2017	2016	2015
Scope 1	235	131	227	129	183	142	313	100
Scope 2	1,634	1,359	1,410	1,935	1,781	1,856	1,931	1,856
Scope 3	873	876	899	940	1,127	1,361	1,473	1,327
Total	2,742	2,366	2,536	3,005	3,091	3,359	3,717	3,284
% change previous year	15.89%	-6.72%	-10.94%	-2.78%	-7.98%	-9.64%	13.21%	-
% change base year	-26.24%	-36.36%	-28.01%	-19.16%	-16.85%	-9.64%	-	-
Number of NTB employees	1308	1,443	1,536	1,475	1,442	1,398	1,351	1,303
% change previous year	-9.36%	-6.05%	4.14%	2.29%	3.15%	3.48%	3.68%	-
% change base year	-3.18%	6.81%	13.69%	9.18%	6.74%	3.48%	-	-
Tonnes of CO ₂ e per employee	2.10	1.64	1.74	2.04	2.14	2.40	2.75	2.52
% change previous year	27.85%	-5.90%	-14.48%	-4.96%	-10.79%	-12.68%	9.19%	-
% change base year	-23.82%	-40.41%	-36.68%	-25.96%	-22.10%	-12.68%	-	-

The Bank's focus on managing Natural Capital was mainly in the following areas;

Climate Action

Cognizant of our responsibility in mitigating negative environmental impacts, the Bank continues to focus on rationalising the use of resources through digital improvements and greater employee awareness.

Paper Consumption

- The implementation of the Nations Direct self-onboarding platform has minimized customer branch visits and eliminated the physical documentation process.
- Introduction of e-statements has significantly contributed towards reducing paper usage, with 92% of overall customers opting for digital statements – the highest in the Banking industry.
- Issuing of digital certificates to customers highlighting their contribution towards saving trees to encourage the usage of paperless platforms such as Nations e-box for accessing bank statements and letters etc.
- Digitisation of back-end processes leading to consistent reductions in paper usage.
- During the year, 14.6 MT of paper was consumed with a 33% y-o-y decline in paper usage.

Water Consumption

Mechanisms are in place to measure water consumption and employees are encouraged to optimise the use of water. However, there is a 21.6% rise in water use as a result of employees reporting back to work following the lockdown period.

Energy Consumption

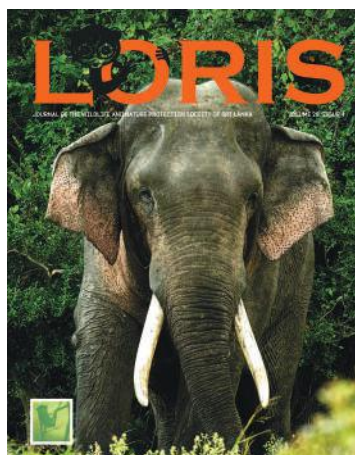
- Raising employee awareness on energy conservation, investing in energy efficient cooling and lighting solutions and minimizing resource usage through digital adoption. During the year, purchased electricity is 3,995 MWh.
- Waste management: Encouraging the 3R culture of reducing, reusing and recycling waste through measurable systems and processes. Three types of waste is generated from the Bank's Operations. Food waste is separated in the main offices and employees are made aware of wastage via notices. E-waste is segregated and disposed through approved third-party recyclers. Paper waste is measured and recycled with 8,598kg of paper being recycled during the year.

Green Lending Decisions

- The bank's comprehensive ESMS policy ensures that Corporate and SME facilities above LKR 25 Mn and IFC funded facilities undergo rigorous environmental and social risk assessments.
- As a signatory to the Sustainable Banking Initiative of the Sri Lanka Banks' Association, sustainable economic growth is promoted through the wider adoption of sustainable financial standards.
- A separate department is in the process of being set up under the Marketing division to focus on lending towards sustainable development priorities through green financing.

Raising Awareness About Biodiversity

- Continuing awareness programs with monthly lectures 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
- The Bank's commitment to environmental education continued during the year through our sponsorships of the WNPS Loris, Warana and Varanam publications, the oldest wild life magazine in Asia.
- Employees were encouraged to spread the message of conservation and participated in 3 staff visits during the year to biodiversity centres and animal hospitals.



Sole sponsor of WNPS magazine

Independent Assurance Report



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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

Introduction and scope of the engagement

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

- Reasonable assurance on the information on financial performance as specified on page 6 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the GRI Standards.

Basis of our work and level of assurance

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

The criteria applied for this assurance engagement:

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

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance

engagement conducted in accordance with ISAE-3000 (Revised) and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Management of the Bank’s responsibility for the Report

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

Ernst & Young’s responsibilities

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the given criteria. This Report is made solely to the Bank in accordance with our engagement letter dated 17 February 2022. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka,

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

Key Assurance Procedures

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

- Agreed the information on financial performance as disclosed on page 6 of the Report to audited financial statements
- Validated the information presented and checked the calculations performed by the organization through recalculation
- Performed a comparison of the content given in the Report against the criteria given in the selected sustainability standards/frameworks.
- Conducted interviews with relevant organization’s personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff

- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

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

Limitations and considerations

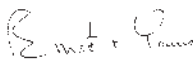
Social, Natural and Intellectual capital management data/information are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

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

Conclusion

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

- The information on financial performance as specified on page 6 of the Report are properly derived from the audited financial statements for the year ended 31st December 2022.
- Nothing has come to our attention that causes us to believe that the information presented in the Report are not fairly presented, in all material respects, in accordance with the relevant criteria.



23rd February 2023
Colombo

Corporate Governance

In a rapidly evolving macroeconomic landscape, an effective Board is critical in managing the volatility to ensure sustainable returns to shareholders while balancing the interests of key stakeholders. Accordingly, the Board increased its vigilance in the context of the country’s weaker macroeconomic profile and its impact on the stability of the country’s financial sector.

Highlights

Succession for role of Chairman

Mr. Gihan Cooray will retire as Chairman on 30th April, 2023 in compliance with the 9 year limit on the tenure of a director. Ms. Sherin Cader was unanimously appointed as Chairperson with effect from 1st May 2023.

Appointment of Chief Executive Officer

Mr. Hemantha Gunetilleke was appointed as the Director/ Chief Executive Officer with effect from 4th April 2022 upon the resignation of Mr. Priyantha Talwatte.

Appointment of new directors

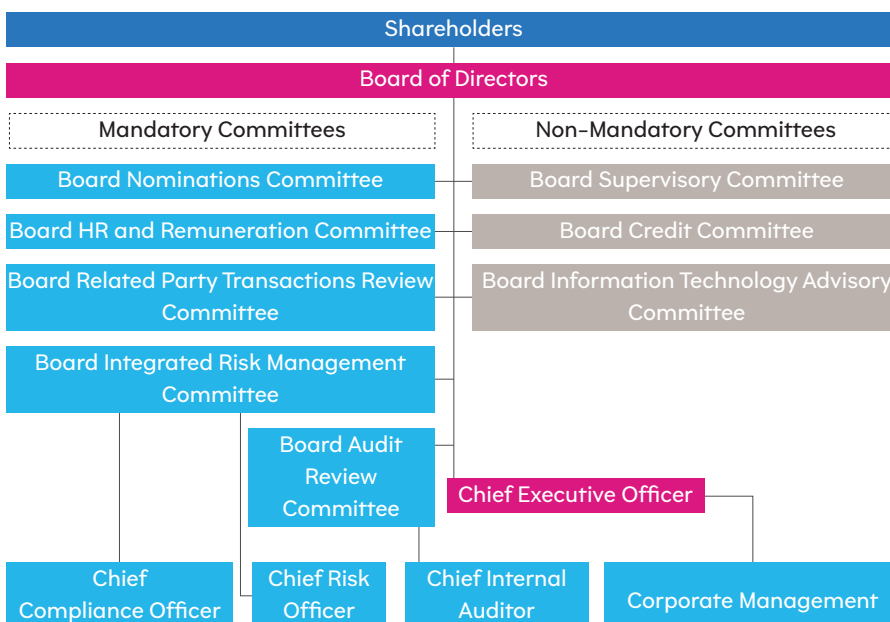
Appointment of Mr. Chandika Hettiarachchi and Mr. Sanjeev Jha as Non Executive directors with effect from 5th January 2022 and 1st May 2022 respectively.

Board Priorities 2022

- Assessing impacts of macroeconomic developments on operations of the Bank
- Liquidity and capital management
- Managing foreign exchange volatility and liquidity
- De-risking business line portfolios
- Implementation of digitalisation strategy
- Increased vigilance on risk management
- Succession planning

Governance Structure

The governance structure of the Bank has evolved to a fit for purpose structure that complements the regulatory requirements, ensuring that the Board has effective oversight of critical aspects of the Bank’s operations.



The roles and responsibilities of the Board and Sub-committees are clearly defined in respective Terms of Reference (TOR). Board Sub-committee TOR were reviewed and revised. The Committee reports on page 77 to 83 provide insights into their activities during the year. The Director/CEO is supported by many Executive Committees appointed for specific purposes, facilitating regular monitoring of strategy implementation, cascading of policy to departments, effective management of risk on a day-to-day basis while setting the tone for good governance.

Executive Committee

- Assets & Liability Management Committee
- Executive Risk Management Committee
- Operations Risk Management Committee
- IT Steering Committee
- Information Security Steering Committee
- Management Credit Committee

A Comprehensive Policy Framework

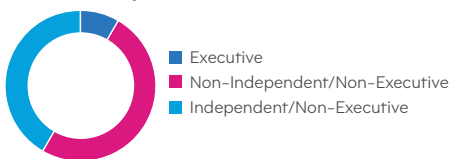
The Board has approved policies that collectively form a comprehensive policy framework to guide management in the day to day operations of the Bank in compliance with the framework for governance set out above. Specific policies reviewed during the year to comply with the changes in the operating landscape and prudential concerns arising from the extraordinary macroeconomic developments that took place during the year are set out alongside.

An Effective Board

Board Composition

Nations Trust Bank’s Board comprises of 12 Directors of whom 11 are Non-Executive Directors who are leading professionals in their respective fields. Collectively, they possess the skills, industry insights and experience needed to effectively fulfill the remit of the Board and support the growth and other aspirations of the Bank. Objectivity of deliberations is facilitated by the presence of 5 independent directors.

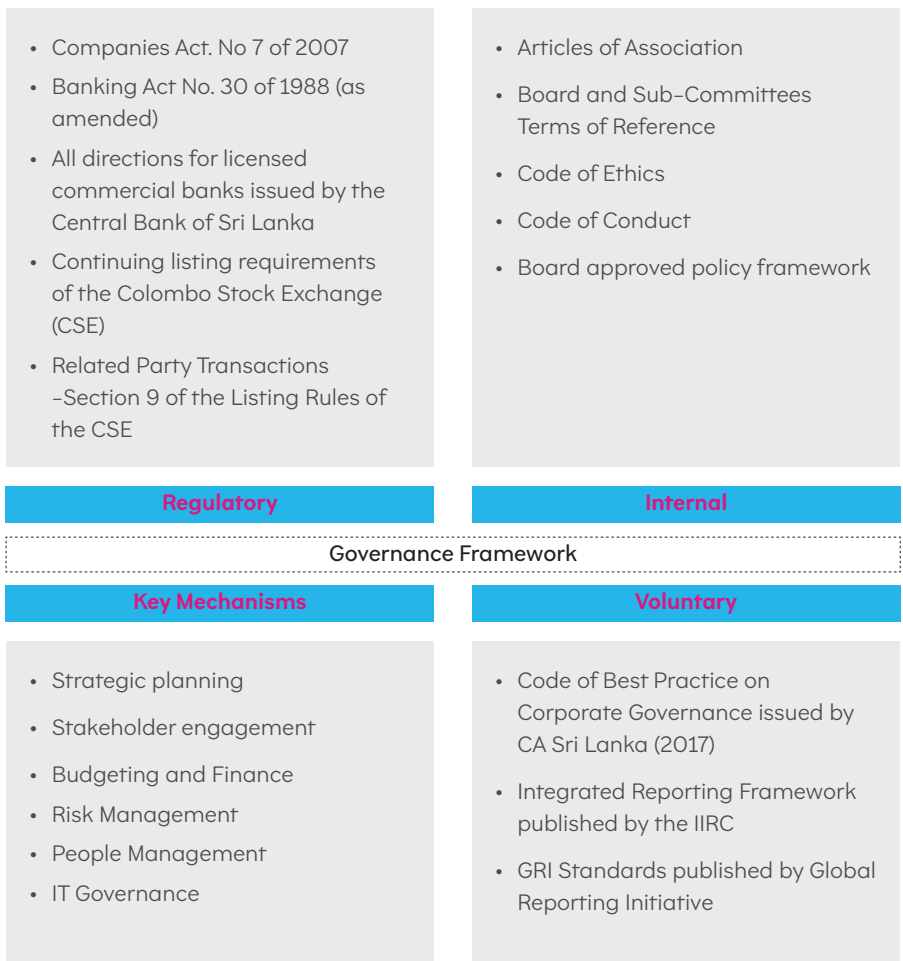
Board Composition



42%
Independent Directors

A Framework for Governance

Nations Trust Bank’s corporate governance framework is designed to safeguard stakeholder value, reinforce core principles of integrity, transparency and accountability and comply with regulatory requirements and voluntarily adopted governance frameworks. Accordingly, the Group’s policies, procedures and structures comply with the requirements of several standards on corporate governance and industry best practices as presented below:



Skill Alignment to Strategic Focus Areas

	Business Focus	Banking and Corporate Management experience
	Cost and Efficiency Management	Multi-disciplined banking experience
	Customer Experience	Finance, Accounting and Auditing
	Automation and Digitisation	IT and Digital Strategy

Gender Balance



Tenure of Non-Executives

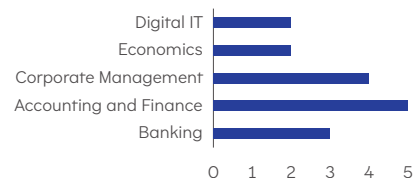


Age Representation



Corporate Governance

Composition of skills



Retirement/Resignation in 2022

- Mr. Sumit Maheshwari
- Mr. Priyantha Talwatte

Director Induction & Training

Two new directors, Mr. Chandika Hettiarachchi and Mr. Sanjeev Jha whose profiles are set out on page 17 were appointed during the year as Non-Independent, Non-Executive Directors. The new directors have gone through an induction programme including discussions with the CEO and Corporate Management to ensure that they are familiar with the operations of the Bank and the processes of the Board.

All directors attend the training sessions organised by the Central Bank of Sri Lanka and undertake training in their personal capacities as well. Additionally, management provides updates on

regulatory changes, the operating environment and industry best practices. External consultants, auditors and other experts also make presentations from time to time on relevant matters, ensuring that the Board is up to date on matters relevant to the Bank.

Access to information: Board papers are made available in advance of the meetings to enable directors to review matters to be discussed at the meeting and seek clarification if required. 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. The assessment expands to include Sub-Committees where all Sub-Committee members required to carry out a self-assessment on his/her role as a member of the Sub-Committee.

Board meetings

The Board convened 13 times during the year. The Directors' attendance at Board meetings and Sub-Committee meetings is set out in the table below:

DIRECTOR	BOARD	BARC	BSC	HRRC	BCC	BIRMC	NC	RPTRC	BITAC
01 Mr. Gihan Cooray (Chairman)	13/13			03/03	14/15		01/01		
02 Mr. Conrad D'Souza ¹	13/13	02/02		03/03		10/10	01/01		
03 Ms. Rachini Rajapaksa	13/13	10/10		03/03		10/10			13/13
04 Mr. Russell De Mel	13/13			03/03	15/15			04/04	
05 Mr. Sumit Maheshwari ²	02/02								03/04
06 Mr. Savanth Sebastian	12/13	08/10	11/12						
07 Ms. Sherin Cader	13/13	10/10	12/12			10/10			
08 Mr. Chanaka Wickramasuriya	13/13				15/15		01/01	04/04	
09 Mr. Arjun Fernando	13/13		12/12		15/15		01/01		13/13
10 Mr. Priyantha Talwatte ³	03/03				03/03	02/02		00/01	03/04
11 Dr. Ramesh Shanmuganathan	12/13								13/13
12 Mr. Chandika Hettiarachchi ⁴	13/13	02/02							
13 Mr. Hemantha Gunetilleke ⁵	09/10				11/12	08/08		03/03	08/09
14 Mr. Sanjeev Jha ⁶	09/09								

¹ Appointed as a member of the BARC with effect from 01st October, 2022

² Retired from the Board of the Bank with effect from 30th March, 2022

³ Resigned from the Board of the Bank with effect from 03rd April, 2022

⁴ Appointed as a Director of the Bank with effect from 05th January, 2022/Appointed as an alternate member to Mr. Savanth Sebastian on BARC with effect from 28th April, 2022

⁵ Appointed as a Director of the Bank with effect from 04th April, 2022

⁶ Appointed as a Director of the Bank with effect from 01st May, 2022

Governance Outcomes in 2022

Liquidity & Capital	Capital buffers of the Bank are above industry and peers.	Managing for returns	Recorded ROE above industry and peers
Sound Risk Management	Prudent management of exposures has minimised losses vis a vis peers.	Digital Dividends	Oversight of IT investments and progress to drive effective change and realise potential returns.
People & Culture	Ensure the people and culture of the Bank evolve to meet new challenges while holding to values.	Integrating ESG	Establishing a Board led ESG agenda and strategy to realise long term sustainable growth.

Evaluating Performance

The Board conducts an annual assessment of its performance using a questionnaire and the results are discussed by the Chairman with the Board.

Liquidity & Capital

Sovereign downgrading in 2020 and 2021 served early warning signs for the Board resulting in increased vigilance and probity in this critical aspect of the Bank's operations. High levels of engagement with the Senior Management supported a sound understanding of issues and action was initiated to mitigate potential threats. Key measures implemented in this regard are as follows:

- Assessment of the macroeconomic environment on business continuity, risk profile and overall financial performance
- Review of regulatory developments and implications on the Group's performance and risk profile
- Extensive stress testing of key variables
- Guidance on managing short term and long term priorities
- Managing for Returns

Focus on managing returns instead of growth supported more efficient resource allocation and deeper analysis into how things could be done differently. Clear identification of opportunities and articulation of risk appetite and limits, served to guide the Bank through this change of focus which has enabled to outperform the industry and peers on return on equity and profit growth in a year of unprecedented turmoil.

Sound Risk Management

The Board is ultimately responsible for effective management of risks and has set in place a strong risk governance structure, framework of policies and allocated sufficient resources for managing the same. The Board Integrated Risk Management Committee assists the Board with oversight of this vital function while the Audit Committee has oversight of the effective operation of internal controls.

- Foresight in risk management enabled the Bank to minimise its exposures to credit risk, both in its loans and advances portfolios and its investments in GOSL foreign currency denominated securities. Therefore, the impact of the government's decision to temporarily suspend the repayments on foreign currency debt was comparatively lower in the industry with a positive impact on returns as impairment charges were curtailed to manageable levels.
- Cybersecurity was a key area of concern for the Board and resources were allocated to reinforcing this area
- Management of foreign currency liquidity was critical due to ill-liquidity of markets, needing careful prioritisation for allocating available foreign exchange and mechanisms were put in place to facilitate this
- Strengthened rigour of risk monitoring due to volatility in markets

Digital Dividends

Investments in digitalisation are relatively high and the Board continues to monitor returns on these investments to ensure that the objectives are met. Accordingly,

the Board noted the positive ratings of the Bank's digital applications, increase in digital revenues, high levels of customer onboarding and the movement of the cost income ratio which were all moving in a positive direction.

People & Culture

People engagements, training and development activities gathered momentum and have driven significant gains in productivity. Right sizing the team was a priority and this was achieved by natural attrition during the year without any lay-offs which would have had a significant adverse impact on employee morale.

The Board of Directors also play a vital role in setting tone at the top and continues to reinforce the values and standards of conduct through the following:

- Code of Conduct
- Code of Ethics
- Anti-bribery and Corruption policy
- Whistleblowing policy
- Related Party Transactions Policy
- Employee grievance policy

Integrating ESG

The Board is exploring options on institutionalising a comprehensive ESG framework and road map for the Bank to ensure that it meets the expectations of regulators and stakeholders. This will strengthen its current initiatives and facilitate cohesion whilst also understanding the gaps where further work needs to be done.

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, 2022. 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 23rd February 2023.

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 or any of the subsidiaries mentioned above during the period under review.

Financial Statements

Financial Statements of the Bank and the group are given on pages 96 to 189 of this Annual Report.

Directors’ Shareholding

Directors’ shareholding as at 31st December, 2022 and 2021 are given below.

Name of the Director	No. of Shares	
	2022	2021
Mr. Gihan Cooray	9,353 (V)	8,804 (V)
	1,624 (NV)	1,532 (NV)
Mr. Conrad D’Souza - Senior Director	-	-
Ms. Rachini Rajapaksa	-	-
Mr. Russell De Mel	-	-
Mr. Sumit Maheshwari (Retired on 30th March 2022)	N/A	-
Mr. Savanth Sebastian	-	-
Ms. Sherin Cader	-	-
Mr. Chanaka Wickramasuriya	-	-
Mr. Arjun Fernando	-	-
Mr. Priyantha Talwatte (Resigned on 3rd April, 2022)	N/A	-
Dr. Ramesh Shanmuganathan	-	-
Mr. Chandika Hettiarachchi	-	N/A
Mr. Sanjeev Jha	-	N/A
Mr. Hemantha Gunetilleke	-	N/A

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 2022 and their Report on the Financial Statements is given on page 92 of this Annual Report.

Significant Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 101 to 121.

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 60 to 61 of this Report.

Entries were made in the interest register on payments approved by the Board to Executive Director.

Directors' Remuneration

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

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. Sumit Maheshwari (Retired on 30th March 2022)	2	2	Nil
Ms. Sherin Cader	13	13	Nil
Mr. Arjun Fernando	13	13	Nil
Dr. Ramesh Shanmuganathan	13	12	01
Mr. Chandika Hettiarachchi	13	13	Nil
Mr. Sanjeev Jha	09	09	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	01
Mr. Chanaka Wickramasuriya	13	13	Nil
Executive Director			
Mr. Priyantha Talwatte (Resigned on 3rd April 2022)	03	03	Nil
Mr. Hemantha Gunetilleke (Appointed with effect from 4th April, 2022)	10	09	01

Mr. Chandika Hettiarachchi was appointed to the Board as a Non Executive Director with effect from 5th January 2022 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 30th March 2022. Mr. Hemantha Gunetilleke was appointed to the Board as the Executive Director with effect from 4th April, 2022 and Mr. Sanjeev Jha was appointed to the Board as a Non Executive Director with effect from 1st May 2022 and they are recommended for election by the shareholders in terms of the aforesaid regulations at the Annual General Meeting scheduled to be held on 31st March 2023.

Independent Non Executive Directors, Ms. Rachini Rajapaksa and Mr. Chanaka Wickramasuriya and the Non Executive Director, Mr. Arjun Fernando retire by rotation and being eligible for re-election are recommended by the Board for re-

Corporate Donations

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

election as provided for in the Article No. 27 of the Articles of Association of the Bank.

Having given due consideration to the criterion set out in the Banking Act No. 30 of 1988 and Banking Act Direction No. 11 of 2007, the 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	9,559	10,585
Fees for Other Services	4,584	4,584

Other services consisted of advisory and tax related work.

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

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

Financial Results and Dividend

Consolidated Income Statement along with the Bank's Income Statement for the year is given on page 97 Statement of Financial Position of the Bank and the Group are given on page 96.

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 4.00 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. In terms of Articles of Association of the Bank payment of dividend does not require approval of shareholders.

Information on Shares and Debentures

Information relating to holdings of shares and debentures is given in pages 218 to 221 and 140 to 141 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 pages 96 to 189.

Capital Adequacy

The Group's capital adequacy ratios as at 31 December 2022 were 14.8% for Tier I and 16.9% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka.

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

Transactions with Related Parties

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

Category of Related Party	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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Items in the Statement of Financial Position												
Assets												
Accommodation												
Loans and Advances	-	-	-	462	106,324	52,396	8,544	3,255	-	-	4,061,515	2,758,202
Credit Cards	-	-	1,384	1,479	16,465	14,699	2,038	724	-	823,807	6,190	-
Other Assets	-	-	-	-	-	-	-	-	-	-	1,221	38,693
Letter of Credit/Guarantees	-	-	-	-	-	-	-	-	215,094	30,894	133,771	4,053,792
Undrawn Facilities	-	-	6,555	7,296	61,140	31,254	3,482	2,059	1,791,421	1,985,621	4,279,272	3,588,444
Total Accommodation	-	-	7,939	9,237	183,930	98,350	14,065	6,038	2,006,515	2,017,339	8,481,970	10,439,130
Less: Cash Collaterals against	-	-	4,933	3,556	74,282	47,369	2,361	1,258	-	-	-	-
Total Accommodations	-	-	-	-	-	-	-	-	-	-	-	-
Total Net Accommodation	-	-	3,006	5,681	109,648	50,981	11,705	4,780	2,006,515	2,017,339	8,481,970	10,439,130
Total Net Accommodation % of Total Regulatory Capital	-	-	0.01%	0.01%	0.25%	0.12%	0.03%	0.01%	4.60%	4.77%	19.43%	24.68%
Liabilities												
Due to Customers	1,649,977	3,643	156,642	231,744	187,815	161,723	42,929	19,736	13,399,797	3,012,040	887,873	1,814,103
Repurchase and Other	137,698	1,470,536	-	-	3,632	17,064	-	-	-	1,400,000	552,468	319,387
Borrowings												
Debenture Issued	-	-	-	-	-	-	-	-	-	-	1,176,700	1,176,700
Other Liabilities	-	-	1	-	-	-	-	-	661	1,351	615,886	713,695
Equity												
Dividends (Net)	-	-	36	21	121	64	-	-	685,017	391,438	-	-
Items in Statement of Profit or Loss												
Interest Income Earned	-	-	70	211	12,261	4,619	1,078	381	23,612	27,071	976,665	254,137
Interest Expenses Paid	210,362	63,188	10,079	9,818	16,444	9,100	2,942	822	750,501	52,706	233,762	160,665
Fees and Other Income Earned	7,879	7,654	378	268	1,595	862	288	107	6,916	2,352	854,138	312,917
Expenses Paid	113,663	102,664	-	-	-	-	-	-	27,320	18,580	93,961	115,890
Compensation paid :												
Short Term Employee Benefits	-	-	91,412	77,311	386,969	259,138	-	-	-	-	-	-
Post employment benefit/compensation on cessation of employment	-	-	151,646	6,683	38,536	26,136	-	-	-	-	-	-
No. of Shares of the Bank acquired												
Voting	-	-	549	-	2,046	-	-	-	9,819,723	-	-	-
Non Voting	-	-	92	-	95	-	-	-	2,308,609	-	-	-

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

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

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

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

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

Report on Compliance With Prudential Requirements, Regulations, Laws and Internal Controls

The Bank has complied with all the regulatory and prudential requirements arising from the provisions in the statutes applicable to the Bank, including the Banking Act No. 30 of 1988, directions and determinations issued by the Central Bank of Sri Lanka under the Banking Act, Monetary Law Act No. 58 of 1949, Foreign Exchange Act No. 12 of 2017, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995, Prevention of Money Laundering Act No. 5 of 2006, Financial Transactions Reporting Act No. 6 of 2006, Convention on the Suppression of Terrorist Financing Act No. 25 of 2005, Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Finance Act No. 5 of 2005, Economic Service Charge Act No. 13 of 2006, Listing Rules of the Colombo Stock Exchange, Securities and Exchange Commission Act 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 Cader – Chairperson

Mr. Chandika Hettiarachchi

Mr. Hemantha Gunetilleke

Nations Insurance Brokers Limited

Ms. Rachini Rajapaksa – Chairperson

Mr. Hemantha Gunetilleke

Allied Properties Limited

Mr. Chandika Hettiarachchi – Chairman

Ms. Sherin Cader

Mr. Hemantha Gunetilleke


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 Friday, 31st March 2023 at 10.00 a.m. by virtual means.

For and on behalf of the Board



Gihan Cooray
Chairman



Hemantha Gunetilleke
Director/Chief Executive Officer



Theja Silva
General Counsel/Company Secretary

23rd February 2023

Directors' Interest in Contracts with the Bank

Related party transactions as required by LKAS 24 "Related Party Disclosures", are detailed in Note 44 to the financial statements. In addition, the Bank carries out transactions in the ordinary course of its business at commercial rates with entities in which a Director of the Bank is the Chairman or a Director of such entities, the details of which are given below.

Details of the transactions carried out with Director related entities during the year 2022

Name of the related party	Name of Director	Relationship	Details
Allied Properties Limited	Ms. Sherin Cader	Director	A sum of LKR 112,758,390.00 was paid as Interest Expense
	Mr. Hemantha Gunetilleke	Director	A sum of LKR 112,930,092.00 was paid as Rent Expenses
	Mr. Chandika Hettiarachchi	Director	
Asian Hotels & Properties PLC	Mr. Gihan Cooray	Director	A sum of LKR 467,259.00 was paid as Interest Expense
			A sum of LKR 8,000.00 was received as Other Income
			A sum of LKR 6,558,711.00 was paid as Other Expenses
Braybrooke Residential Towers (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 568,954,347.00 was received as Interest Income
			A sum of LKR 25,171,233.00 was paid as Interest Expense
			A sum of LKR 16,740,655.00 was received as Other Income
Central Finance Company PLC	Mr. Arjun Rishya Fernando	Director	A sum of LKR 15,625,355.00 was received as Interest Income
	Mr. Chandika Hettiarachchi	Director	A sum of LKR 2,533,846.00 was received as Other Income
			A sum of LKR 27,319,770.00 was paid as Other Expenses
			A sum of LKR 112,863,443.00 as Dividend
CF Insurance Brokers Limited	Mr. Chandika Hettiarachchi	Director	A sum of LKR 6,900.00 was received as Other Income
Ceylon Cold Stores PLC	Mr. Gihan Cooray	Director	A sum of LKR 2,619,895.00 was paid as Interest Expense
			A sum of LKR 242,858.00 was received as Other Income
			A sum of LKR 38,605,052.00 was received as Interest Income
Infomate (Private) Limited	Dr. Ramesh Shanmuganathan	Director	A sum of LKR 600.00 was received as Other Income
Jaykay Marketing Services (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 241,265,968.00 was received as Interest Income
			A sum of LKR 487,328.00 was paid as Interest Expense
			A sum of LKR 70,685.00 was received as Other Income
			A sum of LKR 19,339,437.00 was paid as Other Expenses
John Keells Holdings PLC	Mr. Gihan Cooray	Director	A sum of LKR 7,986,891.00 was received as Interest Income
			A sum of LKR 750,500,901.00 was paid as Interest Expense
			A sum of LKR 269,259.00 was received as Other Income
			A sum of LKR 225,217,531.00 as Dividend
John Keells Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 29,653.00 was received as Interest Income
			A sum of LKR 3,200.00 was received as Other Income
John Keells Information Technologies (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 305,091.00 was received as Other Income
	Dr. Ramesh Shanmuganathan	Director	A sum of LKR 21,590.00 was paid as Interest Expense
			A sum of LKR 44,906,252.00 was paid as Other Expenses
John Keells PLC	Mr. Gihan Cooray	Director	A sum of LKR 578,693.00 was paid as Interest Expense
			A sum of LKR 14,075.00 was received as Other Income
John Keells Stock Brokers (Private) Limited	Ms. Sherin Cader	Director	A sum of LKR 182,375.00 was received as Interest Income
			A sum of LKR 1,772,909.00 was paid as Interest Expense
			A sum of LKR 3,230.00 was received as Other Income
Keells Food Products PLC	Mr. Gihan Cooray	Director	A sum of LKR 7,285,827.00 was received as Interest Income
			A sum of LKR 310,302.00 was received as Other Income

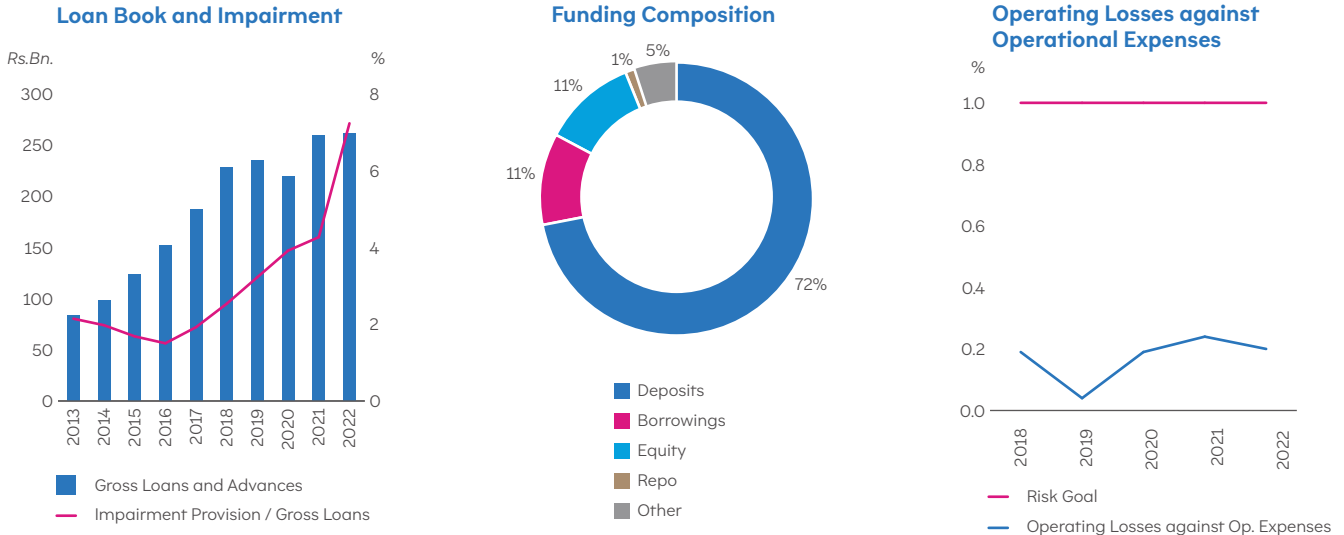
Name of the related party	Name of Director	Relationship	Details
Nations Insurance Brokers Limited	Ms. Rachini Rajapaksa	Director	A sum of LKR 84,292,706.71 was paid as Interest Expense
	Mr. Hemantha Gunetilleke	Director	A sum of LKR 7,776,896.08 was received as Other Income
Rajawella Holdings Limited	Mr. Gihan Cooray	Director	A sum of LKR 1,328,310.00 was received as Interest Income
			A sum of LKR 16,252,603.00 was paid as Interest Expense
			A sum of LKR 85,749.00 was received as Other Income
Trans Asia Hotels PLC	Mr. Gihan Cooray	Director	A sum of LKR 22,221,223.00 was received as Interest Income
			A sum of LKR 5,700.00 was received as Other Income
			A sum of LKR 1,640,856.00 was paid as Other Expenses
Waldock Mackenzie Limited	Ms. Sherin Cader	Director	A sum of LKR 13,310,675.90 was paid as Interest Expense
	Mr. Hemantha Gunetilleke	Director	A sum of LKR 102,487.60 was received as Other Income
	Mr. Chandika Hettiarachchi	Director	
Waterfront Properties (Private) Limited	Mr. Gihan Cooray	Director	A sum of LKR 39,653.00 was received as Other Income

Details of accommodation granted and balances outstanding as at 31 December 2022

Name of the related party	Name of Director	Relationship	Accommodation Granted	Limit LKR	Amount outstanding as at 31 December 2022 LKR
Braybrooke Residential Towers (Private) Limited	Mr. Gihan Cooray	Director	Loans & advances		2,895,389,890
			Bank Guarantee - Off Balance Sheet	3,500,000,000	82,879,867
Jaykay Marketing Services (Private) Limited	Mr. Gihan Cooray	Director	Loans & advances	2,500,000,000	503,027,160
Central Finance Company PLC	Mr. Arjun Rishya Fernando	Director	Bank Guarantee -Off Balance Sheet	1,990,000,000	215,094,328
	Mr. Chandika Hettiarachchi	Director			
Ceylon Cold Stores PLC	Mr. Gihan Cooray	Director	Loans & advances	350,000,000	167,554,719
Trans Asia Hotels PLC	Mr. Gihan Cooray	Director	Loans & advances	150,000,000	135,972,332
Keells Food Products PLC	Mr. Gihan Cooray	Director	Loans & advances	75,000,000	74,841,245
John Keells Information Technologies (Private) Limited	Mr. Gihan Cooray	Director	Loans & advances	1,500,000	823,232
	Dr. Ramesh Shanmuganathan	Director			
Rajawella Holdings Limited	Mr. Gihan Cooray	Director	Loans & advances	153,000,000	360,683
Waterfront Properties (Private) Limited	Mr. Gihan Cooray	Director	Loans & advances	1,500,000	57,224

Risk Management Review

In the face of socioeconomic turmoil, the Bank continued its focus on de-risking of portfolios enabling sustainable value creation while recording a robust performance during the year.



(a) Linking Business Strategy to Risk Management

The link between risk management and business performance has grown stronger over the past few years. We have tightly integrated the 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.

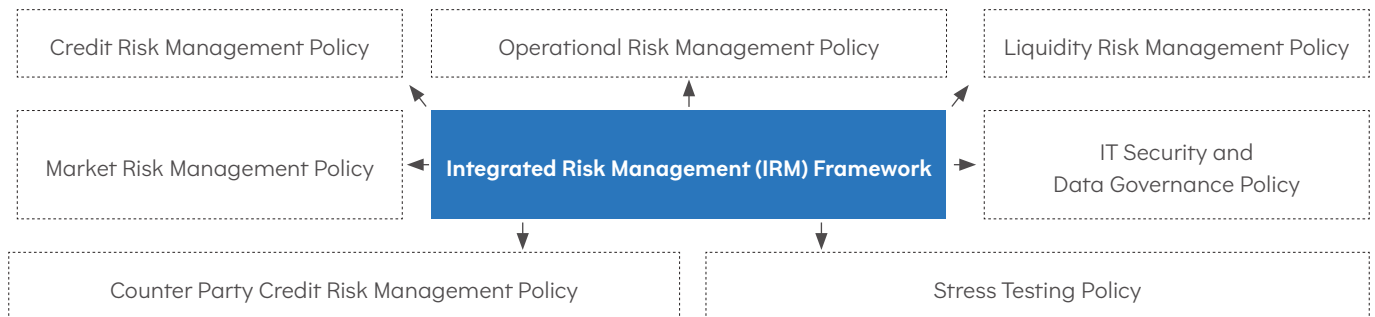
Our business model and risk exposures

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;

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 characterised as the risk appetite.

	Activity	Risk exposure
Risks arising from the Bank's operations and processes	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	



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

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

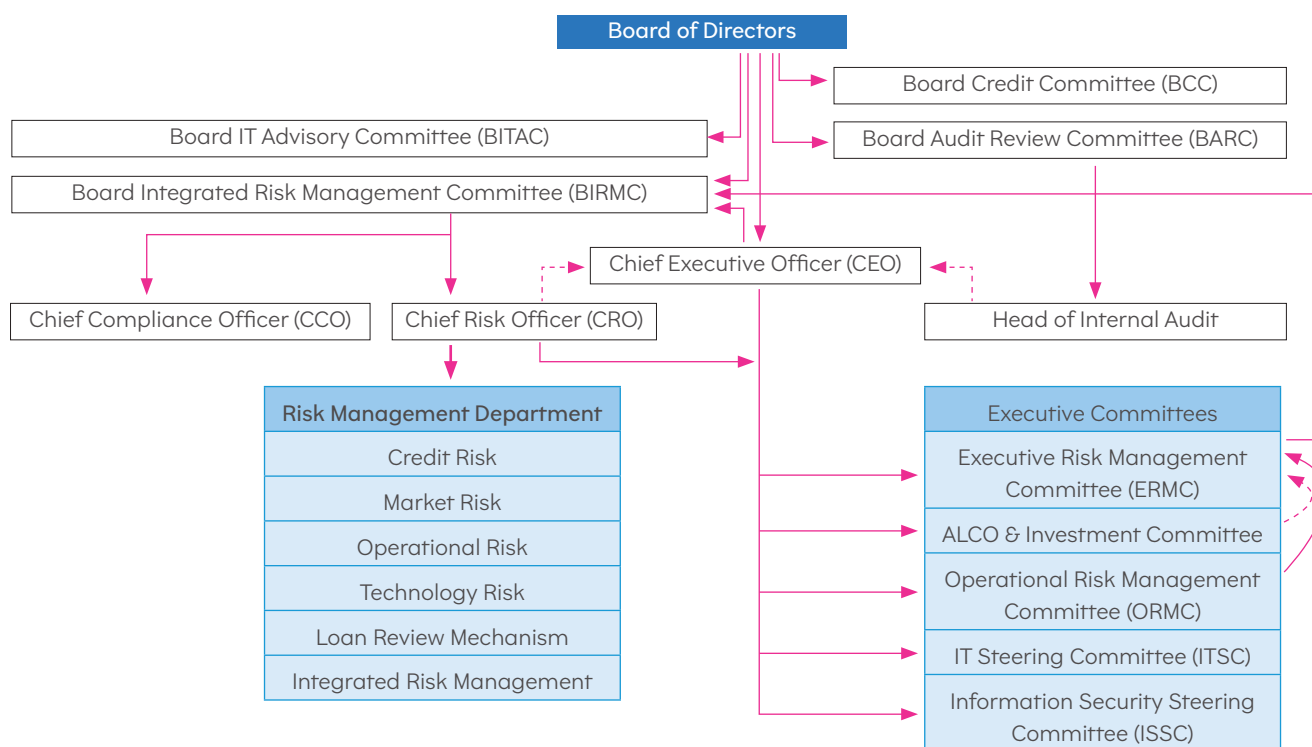
Risk Management Review

	Position as at End 2022	Limit/Range for 2022	Limit/Range for 2021
Credit Risk			
Impairment Ratio	7.22%	7.00% to 8.00%	3.50% to 4.50%
Stage 3 Ratio (Gross)	7.48%	Less than 9.00%	5.50%*
Total Impairment to Stage 3	96.49%	Above 65.00%	Above 45.00%*
Market Risk			
Sensitivity of the trading portfolio against interest rate fluctuations	0.05%	Below 2% of PBT	Below 2% of PBT
Operational Risk			
Operational Losses to Operating Expenses Ratio	0.20%	<1%	<1%

*Ratios based on previously applicable regulatory NPL classification.

(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.



The Board has established Board sub committees to assist it in discharging its oversight responsibilities on risk governance such as independent

oversight of all risk related aspects within the Bank and group including overseeing the formulation of risk management policies, 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, consistently monitors the quality of the Bank's credit portfolio, reviews and appraise technology related recommendations to the Board of Directors.

Board sub committees are as follows:

1. Board Integrated Risk Management Committee (BIRMC)
2. Board Audit Review Committee (BARC)
3. Board Information Technology Advisory Committee (BITAC)

Details relating to composition, terms of reference, authority, activities undertaken during the year etc., of each of these Board sub committees are given in the respective committee reports.

The following management committees were established for the execution of strategies and plans in accordance with the mandate of the Board of Directors while maintaining the risk profile within the approved risk appetite.

Management committees are as follows:

1. Executive Risk Management Committee (ERMC)
2. Asset and Liability Management Committee (ALCO)
3. Investment Committee
4. IT Steering Committee (ITSC)
5. Information Security Steering Committee (ISSC)
6. Operational Risk Management Committee (ORMC)

Three Lines of Defense Model

We adopt the globally accepted Three Lines of Defense Model which ensures transparency and accountability in risk management through clear segregation of duties as depicted below.

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

Centralised 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

The Integrated Risk Management Department (IRMD)

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

Nurturing a Risk Culture	Risk Measurement	Risk Monitoring	Risk Management
Nurture an organisation 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
Provide interpretation of risk-related regulations/leading practices and disseminate 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 advise 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

Risk Management Review

(d) Risk Culture

The success of the risk management frameworks and practices implemented within the Bank are ultimately dependent on the values, attitudes and awareness of our employees. We persistently strive to nurture a culture of risk awareness through numerous engagement mechanisms, ongoing communication and risk-related training. Procedure manuals are in place for all critical operations, compelling employees to follow standards guidelines in day to day activities. Ongoing communication through news bulletins and collaboration tools are aimed towards strengthening the risk dialogue within the organisation. Risk also forms a vital part of the Bank's training proposition, comprising several mandatory training modules for all employees. These measures have helped to instill a culture of risk-awareness within the organisation.

(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 and 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 organisation.

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 , Net of IIS, 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
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, FIS performance
		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, M2M 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.

Risk Management Review

(g) Stress Testing

In addition to normal stress testing process, the 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.

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.

- Stress testing is an effective communication tool to senior management, risk owners and risk managers and regulators since it offers a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy.
- The framework covers all the material risks such as credit risk, operational risk, liquidity risk, FX risk and IRRBB. The Bank reviews different degrees of stress levels as per the Stress Testing Policy which are broadly defined as Minor, Moderate and Severe scenarios.
- The Bank uses a range of stress testing techniques, including scenario analysis, sensitivity analysis and reverse stress testing to perform stress testing for different purposes.
- The outcomes of stress testing are reported to the respective management committees’ for decision making and to BIRMC on a quarterly basis.

Credit Risk	Deterioration in asset quality Increase in Stage shifts and Scenario based simulation of Expected Credit Loss (ECL)	Potential impact on, <ul style="list-style-type: none"> • Earnings • Capital Adequacy • Funding Capability/ Liquidity
Interest Rate Risk	Parallel movement in Interest rates across portfolios	
Foreign Exchange Risk	Exchange rate shocks of different magnitudes to Bank’s Forex 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	

(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 Management Credit Committee (MCC). The MCC 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 utilised when underwriting consumer credit facilities. These scorecards are based on creditworthiness of individual customers, disposable incomes and broader characteristics of the customer

demographic group and provide an indication on the level of credit that can be granted based on the projected repayment capacity.

Risk Rating System

The Bank has implemented an internal risk rating system to rate its obligors. The system incorporates five rating models which are able to effectively gauge the risk profile of the Bank’s diverse client portfolios of large and mid-sized corporate 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

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 MCC, BCC and BIRMC

Areas of focus in 2022

- **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

Credit Risk Performance in 2022

Operating Context

Sri Lanka went through an unprecedented sequence of social and economic events during 2022. The positive trend which was visible in tourism towards the end of 2021 was disrupted by the Russian invasion of Ukraine. The situation further deteriorated with power and fuel shortages experienced towards the second quarter which culminated in social unrest and destabilised the political leadership of the country.

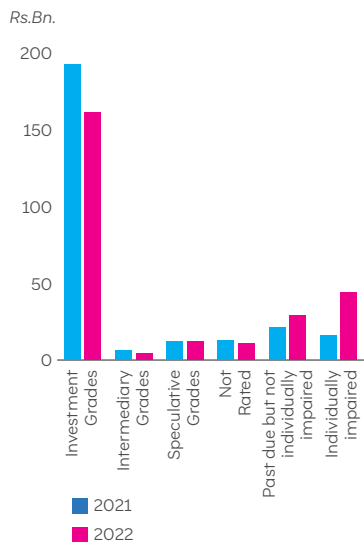
Sri Lankan government declared a sovereign default in the wake of severe shortage of foreign currency reserves in the country. Devaluation of the Sri Lankan Rupee triggered a series of events which exacerbated galloping inflation and a surge in domestic interest rates.

The externalities contributed towards deterioration in Credit quality in the Banking sector. The proactive portfolio repositioning ensured a certain level of resilience from the Bank towards the negativities. This is evident from the Bank's Stage O3 loan ratio. Nevertheless, the bank has allocated additional provision buffers to cushion the possible impacts of sluggish economic conditions and uncertainties. Proactive provisions resulted in a visible increase in impairment ratio and provision coverage amidst a relatively moderate increase in Stage 3.

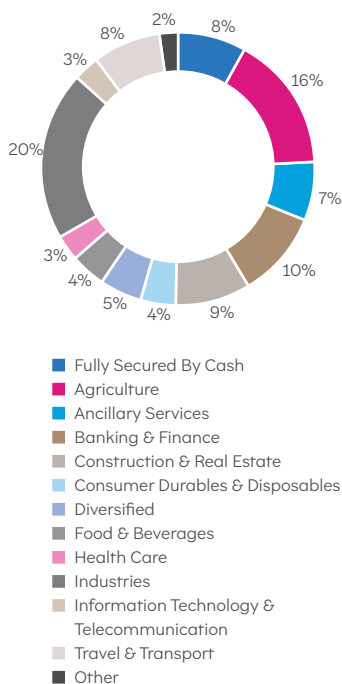
Sri Lankan government initiated discussions with International Monetary Fund (IMF) for financial assistance and obtained staff level agreement for a USD 2.9 Billion credit facility. All macroeconomic indicators reported a higher level of stability towards the last quarter of the year. The positive sentiment was supported by the favourable developments in Exports, tourism sector and remittances.

Risk Management Review

Risk Ratings Distribution



Sectoral Distribution of Loans 2022

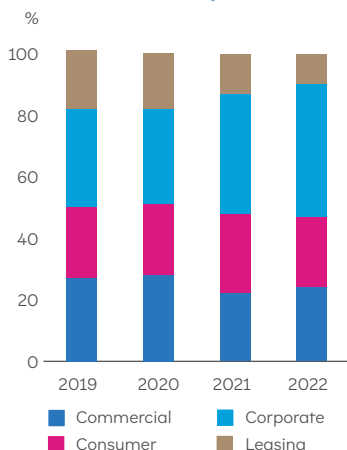


Concentration risk

Concentration risk is measured through the Normalised (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 2022

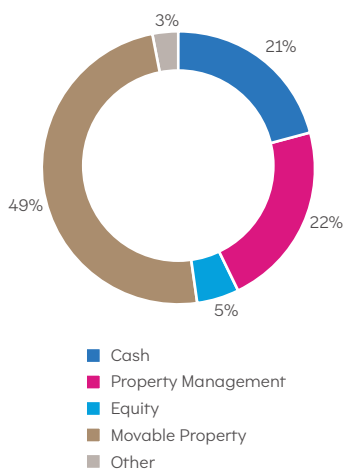


Further details on portfolio status and impairment reserves as at 31.12.2022 are available on page 191.

Large Exposures

Large exposures 31.12.2022	% of total portfolio (Cumulative)
Top 5	8.04%
Top 10	13.02%
Top 20	19.63%
Other	80.37%

Collateral Breakdown 2022



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 is managed through the market risk management framework approved by the Board, which comprises a robust risk governance structure and a comprehensive risk management processes which include policies, procedures, market risk limits, risk monitoring and risk assessment.

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 the Bank's investment activities and evaluating investment performance.

Market Risk is managed by the Treasury Division and exposures are monitored by the Treasury Middle Office, which operates independently from the Treasury Department.

Sound and Robust Market risk Policies

A comprehensive framework of policies is in place to govern all aspects of market risks. These include the Market risk management policy, Investment policy, Asset and liability management policy, Stress testing policy, which provide guidance on systems, procedures, tools and techniques for the identification, assessment, monitoring and reporting on all market related risks. The policies are reviewed and updated regularly in line with changing market dynamics.

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, stop loss limits, maximum exposure limits, counterparty limits and other market risk related limits. Actual performance against these limits are monitored by the Treasury Middle Office 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.

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 by the Treasury Middle Office, ensuring Market Risk exposures are within the Board approved limits.

Please refer page 193 for Net Open Position of Foreign Currency denominated assets and liabilities of domestic banking unit.

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;

- Repricing risk arises from the inherent mismatch between the Bank's assets and liabilities which results in repricing 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 repricing gap analysis, which distributes interest rate sensitive assets, liabilities and off-balance sheet positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions are monitored at least on a monthly basis to ensure compliance to the prescribed limits. In addition to the asset liability maturity mismatches, Please refer page 195 for Interest Rate Sensitivity Gap analysis.

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

Interest Rate Risk in Banking Book

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

When interest rates change, the present value and timing of future cash flows change. This, in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its Economic Value (EVE). Earnings 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 optimise the earnings based on the future interest rate forecasts.

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

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

Liquidity Risk

Liquidity risk is the risk arising from the Bank's potential inability to meet all payment obligations when they fall 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 compressive 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

Risk Management Review

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 liabilities also indicates a relatively healthy liquidity position and for Maturity Gaps in major currencies, please refer page 194.

Areas of focus in 2022

New Policies, Revision of Policies and procedures

- Market & Liquidity Risk Management Policies including Contingency Funding Plan have been reviewed in line with the CBSL Direction No. 07 of 2011–Integrated Risk management Framework and market best practices. No 06 of 2019 Market Conduct and practices for Treasury Operations of Licensed Banks in SL.
- Liquidity Stress testing parameters were reviewed and impact to the statutory liquid asset ratio was also included by analysing different scenarios.
- Counterparty limits were reviewed in accordance with the financial standing and potential revision of credit ratings. Market risk limits on treasury were formulated capturing the change in the risk landscape due to economic turbulence and the Bank's strategy. The Sensitivity of balance sheet, liquidity and the impact to the income statements were assessed considering a possible Domestic Debt Restructure (DDR).

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 emphasises and demonstrates the benefits of a risk based approach to internal control and management of operational risks of the Bank. Meanwhile, the ORMU which functions within the purview of IRMD provides independent verification on the Bank's operational risk exposures.

The operational risk management framework is underpinned by the following;

- **Identification and assessment**
The Bank uses Risk and Control Self Assessments (RCSA) which are administered to all key business and operational units to evaluate the exposure to defined operational risk parameters.

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

- **Risk reporting**

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

- **Outsourced services**

The Bank has embedded well-structured mechanism for managing the outsourced and agent banking activities. Monitoring committee had been established to strengthen the governance and ensure the risk identification and mitigation. Outsourcing services units ensures the Business Continuity Plan rehearsals of service providers as well as carry out periodical visits along with the business unit members, Information Security and respective operational units. These activities provide an assurance on the ability of service provider to maintain required levels of service.

All 3rd party activities have also been reviewed under the Bank recovery procedure in order to ensure high availability for all critical shared services.

- **Challenges during fuel crisis**

Adoption of the work from home and strong BCP planning had been instrumental for the Bank to face the prolonged fuel crisis. With the learnings during the pandemic, the Bank has been able to continue all critical banking operations without any major disturbances. Risks identified from WFH had been managed with adequate measure and application of the correct IT infrastructure.

Operational Risk Performance in 2022

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 2022.

	NTB 2021		NTB 2022		
	Value	%	Value	%	
BASEL II Loss Event Type	Internal Fraud	580	2%	-	-
	External Fraud	672	2%	1,009	4%
	Employment Practices and Workplace Safety	100	0%	-	-
	Clients Products and Business Practices	4,119	15%	5,825	26%
	Damage to Physical Assets	-123	0%	-	-
	Business Disruption and System Failure	8,381	30%	4,005	18%
	Execution Delivery & Process Management	13,970	51%	11,918	52%
	Total Operating Losses	27,699	100%	22,757	100%

Areas of focus in 2022

- **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 an analysis of the Operational Risks of the units. KRIs were designed for several Business Units and has been rolled out with the assistance of the Risk & Compliance Coordinators along with defined thresholds to monitor.
- **Maintained performance against operational risk appetite:** Operational losses to operating expenses ratio was at 0.09% in 2022
- **Increased employee engagement and awareness on "Operational Risks":** Operational risk cultures as further emphasised focusing on the "Risk & Compliance Coordinator (RCC)" development programs. Rolled out thematic awareness session among the RCC during the year to enhance their knowledge on the key policies and procedures governing the risk culture.
- **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. Risk reviews on business and operational changes were conducted to ensure the

effectiveness of the key controls of the Bank and to provide better visibility of potential risk exposures.

- **Fraud Monitoring:** With rapid digitalisation and due to the continuous improvements in customer non-face to face transactions the bank revisits the adequacy of the fraud monitoring at frequent intervals and during all critical changes.
- **Business Continuity and Disaster centre operation:** The Bank has complied with the BCP/DR policy of the Bank and successfully completed the full-fledged annual BCP along with the DR for 7 days period ensuring all the mission critical operations are meeting with the defined RTOs.
- **Recovery planning:** In compliance with the CBSL Direction for establishing recovery procedure for License commercial banks, procedures to identify and ensure the resilience of critical shared services of the Bank were established.
- **User access management:** The Bank had further strengthened the user access management and review procedure scoping the 3rd party system user access as well.
- **Digitalisation:** Digitalisation being the forward strategy of the Bank, Operations risk reviews were carried out in order to ensure the control framework during new implementations.

- **Moving to The Standardised approach on capital calculation methods:** Parallel assessment of operational risk capital under The Standardised 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 certified with the international ISO 27001:2013 Information Security standard and further has a strategic focus on aligning its security processes and technology to Zero Trust architecture principles and international Cyber Security standards to strengthen its security posture.

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 carry out 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 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.

Reporting

Information Security Steering Committee (ISSC) as the apex management level body of information security management is kept updated of the current risk profile, risk appetite and risk mitigation plans for technology risk resilience within the Bank. 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.

Areas of focus in 2022

Security monitoring has been further enhanced by establishing a 24 x 7 Security Operations Centre (SOC) to detect, respond and contain security incidents in a timely manner. Further, the Bank is in the process of enhancing privilege access management and monitoring capabilities.

The Bank launched its Data security program with the implementation of a Data Governance Framework encompassing Data Classification and Data Leakage Prevention measures to protect against data breaches. The implementation of Data Leakage Prevention and Data Classification tools are in progress to enhance information protection capabilities of the Bank.

The Bank has further initiated the implementation of Payment Card – Industry Data Security Standard (PCI – DSS) to enhance security of payment account data and further strengthen its security posture.

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 organisational 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.

Outlook for 2023 and Beyond Credit Risk

- Country's default status, prevailing uncertainty over possible Domestic Debt Restructure and time taken to finalise the IMF facility is likely to create stress in the market. Further disruptions may cloud the economic outlook for 2023.
- Strict control of government expenses and the impact of the revision in personal taxes are also expected to create pressure on the credit quality of the loan book.
- Lending will be focused on segments with higher resilience to the anticipated economic conditions and strategic segment/ portfolio shifts will be continued.
- Bank has taken measures to assess potential stresses seen on portfolio segments with elevated risks. Such segments are closely monitored and proactive remediation measures will be provided to customers on an ongoing basis. The Bank has taken additional Impairment charges for such elevated risk segments and periodic reassessments and stress testing will be performed to ensure adequacy.
- Strict Credit underwriting, adherence to the pre and post disbursement covenants, close monitoring and follow-up shall be the key focus for future in maintaining the asset quality within set appetite level.

Market Risk

- The global economy is projected to expand at a sluggish pace of around 1.6% in 2023 as financial conditions tighten
- Volatility in the Exchange and Interest rates are eminent with the economic turbulence experienced by many parts of the world
- The outcome of IMF negotiations with Sri Lanka would have an impact on the market sentiments
- The default status of the country and expectation of a possible announcement of Domestic Debt Restructure would create stresses on market and liquidity
- Effective portfolio & liquidity management with in-depth risk assessment stress testing and cashflow forecasting would enhance the preparedness and resilience to adverse shocks in the financial markets
- The Bank has been sufficiently liquid in both local & foreign currency and will remain liquid through structural balance sheet management

Operational Risk

- Improving the bank wide 4P (Policy, Procedure, Process, Product) document management
- Establishing governance framework for digital transformation
- Enhance the resilience of the BCP/DR capabilities in line to the ISO 22301
- Moving into Analytics-driven issue detection and real-time risk reporting instead of manual risk reporting
- Enhancing the ORMU engagements with Risk & Compliance Coordinators for continuous development of the operational risk culture across the bank

Technology Risk

- Continue control implementation in compliance to the Technology resilience act

- Compliance to Personal Data Protection Act
- Strengthen Privilege access management
- Establish Zero Trust Architecture
- Strengthen threat and vulnerability management processes
- Further improve detection capabilities

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 its business model.

Credit risk, market risk, liquidity risk and operational risk exposure limits are established which are primarily linked to the capital based on the risk appetite envisaged at this planning level.

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

Pillar 1 risk exposures

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

Pillar 2 risk exposures

Risks such as Residual credit risk, credit concentration risk, interest rate risk of the banking book and strategic risk are assessed based on the Internal Capital Adequacy Assessment Process (ICAAP).

This process also includes assessment of adequate capital buffers to ensure maintenance of minimum capital ratios as per regulations under unexpected, stressed economic conditions.

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

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

Sources of capital

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

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

Capital allocation

Capital is allocated to business lines based on Risk Adjusted Return on Capital (RAROC) targets in order to optimise 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.

Risk Management Review

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:

Total Group capital adequacy ratio under Basel III Pillar I risks is 16.86% as at 31.12.2022 (18.01% 31.12.2021).

Recovery Plan

As sited in the Banking Act Direction number 09 of 2021 issued by the Central Bank of Sri Lanka (CBSL), NTB initiated to maintain a proactive Recovery Plan (RCP) during 2022.

Nations Trust Bank PLC recovery planning process is an ongoing activity. The process complements the Bank's risk governance functions and support its safe and sound operation. The process of developing and maintaining a recovery plan require the Bank's Management and Board of Directors to enhance their focus on risk governance with a view toward lessening the financial impact of future unforeseen events. The recovery plan covers both Bank and the Group of Nations Trust Bank.

Market Disclosures based on Basel iii is annexed below.

Area	No	Disclosure requirement		Page No
Regulatory requirements on capital and liquidity	1	Key Regulatory Ratios – Capital and Liquidity	Table – 1	197
	2	Basel III Computation of Capital Ratios	Table – 2	198 – 199
	3	Basel III Computation of Leverage Ratio	Table – 3	199
	4	Basel III Computation of Liquidity Coverage Ratio	Table – 4	200
	5	Basel III Computation of Net Stable Funding ratio (NSFR)	Table – 5	201
	6	Main Features of Regulatory Capital Instruments	Table – 6	202 – 203
Risk Weighted Assets	7	Summary discussion on adequacy/meeting current and future capital requirements	Capital Management Section of this review	75 – 76
	8	Credit Risk under Standardised Approach: Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects	Table – 7	204 – 205
	9	Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights	Table – 8	206 – 207
	10	Market Risk under Standardised Measurement Method	Table – 9	208
	11	Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach	Table – 10	208 – 209
Risk Management	12	Bank Risk Management Approach	Risk Management review is outlined in Sections (a) to (h) in this Review	62 – 76
	13	Risk Management related to Key Risk Exposures		

Board Integrated Risk Management Committee Report

Composition

The 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, 2022 was as follows;

Mr. Conrad D'Souza – Chairman
(Senior Director/Independent Non-Executive Director)

Ms. Rachini Rajapaksa
(Independent Non-Executive Director)

Ms. Sherin Cader
(Non-Executive Director)

Mr. Hemantha Gunetilleke
(Director/Chief Executive Officer)¹

Mr. Priyantha Talwatte
(Former Director/Chief Executive Officer)²

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

Ms. Saaraa Warnakulasooriya
(Chief Compliance Officer)

¹ appointed member/Director CEO
w.e.f 04th April 2022

² retired w.e.f 03rd April 2022

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. Ajith Akmeemana
Chief Financial Officer

Mr. Perry Savundranayagam
Head of Treasury & Investment Banking

Mr. Theja Silva
General Counsel/Company Secretary

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 Board 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.
- Periodically reviewing the Compliance policies and Charter
- Setting objectives and carrying out performance appraisal of Chief Risk Officer & Chief Compliance Officer
- Develop and review the Recovery plan as sited in the regulatory guidelines and make appropriate recommendations to the Board
- Review the Bank's compliance risk and the effectiveness of its Compliance Programme, ensuring risk mitigation measures are taken to combat financial crime and comply with the applicable laws, rules and regulations
- Provided inputs to the management on the Strategic Plan 2023-2025 before its submission to the Board

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

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 BIRMC 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 BIRMC held ten (10) meetings during the year under review and the Directors' attendance at such meetings is given on page 54 of this Annual Report. Minutes of the Meetings were forwarded to the Board. The BIRMC also approves a Risk Assessment Report which is submitted to the Board within a week of every meeting. The BIRMC 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
Board Integrated Risk Management Committee

23rd February 2023

Board Credit Committee Report

Composition of the committee

The Board of Directors appointed the members of Board Credit Committee (BCC) for the period ended 31st December 2022 and the Committee's composition 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 should attend all Board Credit Committee meetings and other members from the Senior Management of the Bank participates meetings by invitation on requirement.

Terms of Reference

The Board Credit Committee is empowered to

1. Approve/Decline all credit facilities above the level of authority granted to "Management Credit Committee" by the "Board Credit Committee" and 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 to it by the Board of Directors.

The Board Credit Committee has provided special guidance on managing main credit portfolios and to inculcate healthy lending culture, under volatile market conditions in addition to the regular duties assigned. Salient points are appended hereunder;

1. Regular review of the Credit strategies pertaining to Corporate Banking, Off-Shore Lending, Structured Finance, Commercial Banking (Middle Market Enterprises and Small and Medium Enterprises) and Consumer Banking.
2. Providing strategic directions to the Business Units on industries under stressed market conditions with special focus to manage adverse industries in order to maintain credit quality.
3. The Board Credit Committee advocated by providing solutions to the clients/vulnerable sectors impacted by the pandemic coupled with the adverse macro-economic factors. Further, the committee monitored bank's exposure to impacted sectors as well as large borrower accounts and borrower groups.
4. Special emphasis was given to policies and controls imposed by the government and regulator on debt moratoriums, import restrictions, forex regulations and proposed new Taxes etc.

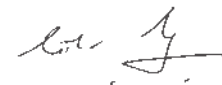
5. Extensively reviewed segments which are impacted by the prevailing economic crisis and the consequences due to proposed tax reforms such as personal banking segment and Credit Card portfolio,

Meetings

The Committee held fourteen meetings during the year under review and the Directors' attendance at such meetings is given on page 54 of this Annual Report. The minutes of all meetings which included proceedings and decisions of the committee were submitted 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.



Gihan Cooray
Chairman
Board Credit Committee

23rd February 2023
Colombo

Board Supervisory Committee Report

The members of the Board Supervisory Committee (BSC) are appointed by the Board of Directors and the Committee's composition during the year 2022 was as follows;

Ms. Sherin Cader
(Non Executive Director)

Mr. Savanth Sebastian
(Independent Non Executive Director)

Mr. Arjun Fernando
(Non Executive Director)

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. 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 twelve meetings during the year under review and the Directors' attendance at such meetings is given on page 54 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 Corporate Management on various initiatives including products, distribution channels etc prior to being presented to the Board of Directors for approval.
4. Review, provide input and guidance on policy, strategic plans, annual plans, business plans and other such proposals impacting the operations of the Bank prior to such policies, plans and proposals being presented to the Board of Directors for approval.
5. Review the operational governance framework at the Bank to 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 2023

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 2022 was as follows;

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

Mr. Gihan Cooray
(Non Executive Director)

Mr. Chanaka Wickramasuriya
(Independent Non Executive Director)

Mr. Arjun Fernando
(Non Executive Director)

The Company Secretary functions as the Secretary to the Committee.

The Committee held one meeting during the year under review and the Directors' attendance at such meeting is given on page 54 of this Annual Report. The Committee also considered certain proposals via circulation.

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) comprises of persons of required skill and expertise and that their responsibilities and areas of authority are aligned with the Board approved strategy. The Committee also considers and determines that the Directors and the KMP are fit and proper persons to hold their respective offices.

During the year under review, the Committee considered the appointments of two Directors including the Director/CEO and determined that they are fit and proper persons to hold directorships of the Bank. The Committee also considered appointment of seven KMP and extension of contracts of two existing KMP and determined that they are fit and proper persons to hold such offices. The Succession Plan for KMP was also reviewed and recommended by the Committee.

Affidavits submitted by the continuing directors in terms of the Banking Act Direction No.8 of 2019 were considered by the Committee and recommended them as fit and proper persons to hold directorships of the Bank.

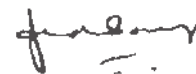
The Committee considered the declarations submitted by the Independent Non Executive Directors and recommended that they satisfy the criteria for independence specified in Rule No. 3(2)(iv) of the Banking Act Direction No. 11 of 2007. The Committee also considered and recommended re-election of Mr. Savanth Sebastian and Ms. Sherin Cader in terms of the provisions containing in the Articles and recommended for re-election at the AGM held in March 2022. The election of Mr. Chandika Hettiarachchi was also considered by the Committee in terms of the provisions containing in the Articles and recommended for election at the AGM held in March 2022.

The proceedings of the meeting and the recommendations made via circulation 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 2023

Human Resources and Remuneration Committee Report

During 2022, 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 2022 three HRRC meetings were held and the Directors' attendance at such meeting is given on page 54 of this Annual Report. The second meeting was a continuation of the first meeting for the year held on March 03, 2022. The CEO was present at all meetings of the committee, except when matters relating to the CEO or matters in which the CEO has a direct or indirect interest were discussed.

The workings of the Committee are governed by the Board Human Resources & Remuneration Committee Charter, 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 programs is maintained.

In keeping with the objectives of the Board Human Resources & Remuneration Committee Charter, the Committee during 2022, 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 KMP roles in pursuing the short term and long term strategic objectives of the Bank.

In March 2022 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.

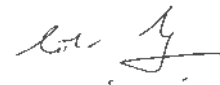
In creating a performance driven culture, the Bank administers a variable bonus scheme linked to the Bank's performance for the year vis-à-vis the annual budget and the performance of a peer group of banks. Individuals are rewarded based on their individual performance and responsibility levels.

The Board Human Resources & Remuneration Committee Charter was reviewed and approved by Board at the Board meeting held in October 2022.

During 2022, the Committee also evaluated the 2021 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 and Key Management Personnel for the year 2022.

In May 2022 understanding the financial difficulties faced by the employees due to the economic crisis, the HRRC endorsed and recommended to the Board of Directors an Economic Relief Allowance (ERA) proposed by the management.

In November 2022, at the request of the management, HRRC recommended to the Board of Directors to pay an advance on the performance driven bonus entitlement to provided financial assistance to staff during the festive season.



Gihan Cooray
Chairman
Human Resources and Remuneration Committee

23rd February 2023

Board Information Technology Advisory Committee Report

The members of the Board Information Technology Advisory Committee (BITAC) are appointed by the Board of Directors and the Committee's composition as at 31st December 2022 was as follows;

Dr. Ramesh Shanmuganathan

- *Chairman*

(*Non Executive Director*)

Ms. Rachini Rajapaksa

- *Chairperson for Digital Projects*

(*Independent Non Executive Director*)

Mr. Arjun Fernando

(*Non Executive Director*)

Mr. Hemantha Gunetilleke¹

Director/CEO

¹Appointed as a member w.e.f. 4th April 2022

Mr. Priyantha Talwatte who was a member resigned from the Board on 3rd April 2022

Mr. Sumit Maheshwari who was a member retired from the Board on 30th March 2022

The Chief Transformation Officer/Chief Information Security Officer functions as the Secretary to the Committee.

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

The Committee held 15 meetings in total (including 03 special meetings) during the year under review and the Director's attendance at such meeting is given in page 54 of this annual Report.

The Committee's main responsibilities include the following.

1. Provide stewardship, guidance and oversight to the Board and Management in ensuring alignment of overall Governance of Technology at the bank
2. Facilitate better integration between the Board and Management in driving Technology as a Strategic asset/investment for the bank by providing oversight and guidance to the Board and Management

3. Exercise oversight and provide directions and guidance to the CEO and the Executive Management to maximize Value delivery from Technology strategies, initiatives and investments for the Bank
4. Exercise oversight and provide guidance and direction to the Management on Governance, Risk & Compliance of Technology of the Bank
5. Ensure that the Technology Leadership and talent to deliver the Bank's strategies are in place
6. Review of performance, monitoring of IT-enabled investment, projects and service delivery
7. Progressive review Operational SLA between Business/IT
8. Progressive review of IT investments against planned value delivery/ recognition

The Committee carried out duties and responsibilities as per the TOR including the following during the year 2022.

Providing guidance and oversight to the Board/Management in ensuring alignment of overall Governance of Technology at the bank by reviewing ITSC ToR, ISMS Policy documents business continuity and disaster recovery policy/ procedures.

The Committee oversite and recommended technology investment in relation to;

Information Security risk assessments and Reports , Outcome of External Penetration testing 2021 and Risk mitigation action plan, Cash Management system Mobile App – CBSL Compliance Assessment, FriMi and Nations Mobile Banking – CBSL Compliance Assessment 2021, Enterprise Back up Infrastructure Upgrade, AML Project, Treasury Upgrade, Privilege Access Management Solution, Presentation on Retaining Key IT Resources, BC plan on new Digital Banking, DR Drill CBSL circulated paper,

Upgrade of MPI Server, Procurement of Expected Credit Loss system, Web Application Firewall Upgrade.

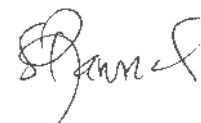
From a security perspectives, the Committee provided direction and recommendations for adopting a Zero Trust Framework, establishment of a 24x7 SOC operations, scoping of external penetration tests and adoption of CBSL technology risk resilience requirements.

Further, the Committee reviewed the ISSC meeting minutes/presentation to assess the effectiveness and progress of ongoing Cyber security control implementations and risk mitigations.

In relation to performance, monitoring of IT-enabled investment, projects, service delivery towards bank's IT strategic plans/projects: the committee oversight ITSC presentations and progress of strategic projects, which include digital banking transformation project, 2023 technology transformation strategy and roadmap.

The Committee will refer to the Board, the Board Audit Committee (BARC) or Board Integrated Risk Management Committee (BIRMC) any matters that have come to the attention of the BITAC that are relevant for noting or consideration, or which should be dealt with the Board or BARC or BIRMC.

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



Ramesh Shanmuganathan

Chairman

Board Information Technology Advisory Committee

23rd February 2023
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, 2022 was as follows;

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

Mr. Chanaka Wickramasuriya
(Independent Non Executive Director)

Mr. Hemantha Gunetilleke¹
(Executive Director/CEO)

¹Appointed as a member w.e.f. 4th April 2022

Mr. Priyantha Talwatte who was a member resigned from the Board on 3rd April 2022

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 54 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 comprehensive process for managing related party transactions approved by the committee is in place.

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 2023
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 evaluates 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 87.
- 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.

- Post Covid 19 pandemic, the Bank revisited and reviewed its work arrangements and accordingly, 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. 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. Remote working arrangements were facilitated as per the Bank's IT security policies and additional controls/monitoring procedures were introduced as relevant.

Furthermore, Government of Sri Lanka through the Central Bank of Sri Lanka provided debt moratorium arrangements during year 2022 also, 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.

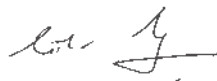
Confirmation

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.

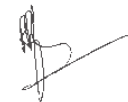
Review of the Statement by External Auditors

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 2022 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control over financial reporting of the Bank. External Auditors' report on statement of internal controls over financial reporting is given on page 86 to this Annual Report.

By order of the Board



Gihan Cooray
Chairman



Rachini Rajapaksa
Chairperson Board Audit Review
Committee



Hemantha Gunetilleke
Director/Chief Executive Officer

23rd February 2023
Colombo

Auditor's Statement on Internal Control Over Financial Reporting



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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF NATIONS TRUST BANK PLC

Report on the 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 2022.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional 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 Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control Over Financial Reporting.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

The procedures performed were limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 (Revised) does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 (Revised) also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Bank, the event or transaction in respect of which the Statement has been prepared.

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

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Bank.

23rd February 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangemuwa FCA FCMA LLB (London), 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: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Parawantane ACA 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 2022 was as follows;

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

Mr. Savanth Sebastian
(Independent Non Executive Director)

Ms. Sherin Cader
(Non Executive Director)

Mr. Conrad D'Souza¹
(Independent Non Executive Director)

Mr. Chandika Hettiarachchi²
(Non Executive Director)

¹ Appointed as a member with effect from 1st October 2022

² Appointed as the alternate to Mr. Savanth Sebastian in his capacity as a member of the BARC with effect from 28th April 2022.

Brief profiles of the BARC members are given on pages 15 to 17 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 54 of this Annual Report.

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 31st August 2022 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

Year 2022 commenced with the industry rebounding from lockdowns and disruptions as the pandemic continued to evolve with economic activity adapting into the new normal. Multiple external shocks during the year resulted in the risk landscape of the banking industry changing significantly which warranted attention and oversight of BARC into heightened areas of risks in economic, credit, asset quality, information security including cyber resilience and regulatory. The Committee continued to pay close attention to the reporting of the Group's financial performance as well

Board Audit Review Committee Report

as monitoring closely the impact on the internal control environment brought about by the changes in the operating landscape.

Following are some of the activities performed by the BARC during 2022:

Financial Reporting

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

- a) the underlying assumptions for estimates and judgments
- b) any changes made in accounting policies and practices
- c) significant adjustments arising from the annual audit
- d) disclosures made under financial reporting
- e) compliance with Sri Lanka accounting standards (SLFRS/LKAS) and other regulatory provisions
- f) material variances in income and expenditure and assets and liabilities, between the current and previous financial periods in order to better understand the reasons for such variances and their validity

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

The Committee regularly reviewed the key aspects pertaining to SLFRS 9 impairment model refinements. The Committee 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. The operating environment has increased the level of judgement that management has been required to exercise over the year on impairment provisions. The Committee was apprised frequently on the application of specific adjustments to impaired provisions to ensure the full potential impacts of credit stress has been provided for in the financial statements.

As part of an initiative to provide continuous support to audit committees through 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 covering the areas of; Impact on ECL- Loans and Advances/ Financial Investments, Accounting for Hyperinflation and a high-level overview of Personal Data Protection Act of Sri Lanka.

Internal Audit

Annual coverage of the audit universe by the Internal Audit team is based on a risk assessment review aligned to the Bank strategic plan. To this end, the risk and significance based audit plan covering all significant operational areas and mandatory regulatory audits including branches, departments and special reviews for 2022 was approved at the beginning of the year by the BARC. The audit plan addressed the key aspects of the enterprise level risk themes for year 2022 with a mix of core assurance, thematic, advisory, special review audits planned to provide reasonable assurance on the control environment.

The emergence of the pandemic environment resulted in heightened fraud risk and operational disruptions leading to possible weakening of the control framework. The plan addressed the audit procedures for identification of potential fraud risks and evaluating of

the established controls that prevent and recognise fraudulent activity. The shift to Digitalisation and remote working with the use of various devices has rapidly increased the vulnerability to cyber-attacks. Advancements of technology has also increased the sophistication and frequency of information security threats and frauds. Understanding of information security risks and identify possible mitigation strategies in light of the changes to the working environment and IT infrastructure was addressed in the plan. Digitalisation strategy of the bank has resulted in higher reliance on IT controls, migrating swiftly from a manual control environment. Engaging early to ensure the control environment is in place together with post implementation reviews of critical systems, by drawing collective expertise of information systems and process auditors was a natural progression made to tackle technology audits for the year. 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, assurance work over the impairment process by the internal audit team focused particularly on CBSL Direction 13 including loan origination, monitoring and recoveries. The ECL

(Expected Credit Loss) governance framework was reviewed to ascertain the realignment of policy framework in light of the related regulatory directions and requirements of relevant accounting standards.

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 team 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.

Regulatory compliance

Regulatory risk continued to be a heightened area of focus with the dynamic changes in regulatory landscape. Given the frequent issuance of regulations and continuously expanding scope of regulatory compliance verifications were performed to ensure compliance to applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to enable adherence to such requirements.

External Audit

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

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

In order to discharge its responsibilities, the BARC met with the External Auditor on 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

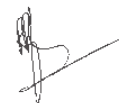
The Whistle Blowing Policy was reviewed by the BARC and was approved by the Board of Directors on 18th February 2021 with a view to further strengthen the process by which employees could raise their concerns in confidence on suspected fraud, possible inconsistencies/shortcomings in financial reporting, 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 2023 subject to the approval of the shareholders at the next Annual General Meeting.

Evaluation of the Board Audit Committee

The Committee carried out a self-evaluation of its performance during the year 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 2023
Colombo

Financial Statements

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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 92 of this Annual 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 31st December 2022, 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 31st December 2022 and the profit or loss of the Bank and the Group for the financial year then ended.

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

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

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

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

Further, as required by Section 56(2) of the Companies Act No.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 scrip dividend of LKR 4.00 per share.

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

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

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

By Order of the Board



Theja Silva
General Counsel/Company Secretary

23rd February 2023

Independent Auditors' Report



Ernst & Young
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONS TRUST BANK PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of Nations Trust Bank PLC (the "Bank") and the consolidated financial statements of the Bank and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2022, statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank and the Group gives a true and fair view of the financial position of the Bank and the Group as at 31 December 2022, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the

audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Key audit matter

Provision for credit impairment on financial assets carried at amortised cost and debt instruments carried at fair value through other comprehensive income

Provision for credit impairment on financial assets carried at amortised cost as stated in Notes 11,12 &13 respectively is determined by management in accordance with the accounting policies described in Note 3.5.

This was a key audit matter due to the materiality of the reported provision for credit impairment which involved complex calculations; degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets.

How our audit addressed the key audit matter

In addressing the adequacy of the provision for credit impairment on financial assets carried at amortized cost, our audit procedures included the following key procedures;

- We assessed the alignment of the Bank's provision for credit impairment computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.
- We evaluated the internal controls over estimation of credit impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management
- We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Bank.
- In addition to the above, the following procedures were performed:

Key audit matter	How our audit addressed the key audit matter
<p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following;</p> <ul style="list-style-type: none"> » management overlays to incorporate the current economic contraction. » the incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios. 	<p>For loans and advances assessed on an individual basis for impairment:</p> <ul style="list-style-type: none"> » We evaluated the reasonableness of credit quality assessments. » We checked the arithmetical accuracy of the underlying individual impairment calculations. » We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals <p>For financial assets assessed on a collective basis for impairment:</p> <ul style="list-style-type: none"> » We tested the key inputs and the calculations used in the provision for credit impairment. » We assessed whether judgements, assumptions and estimates used by the Management when estimating future cashflows, in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used based on available market data, economic scenarios considered, and probability weighting assigned to each of those scenarios. • We assessed the adequacy of the related financial statement disclosures set out in notes 2.9 (iii), 3.5,11,12,13,36 and 47.1 to 47.2.
<p>Information Technology (IT) systems and controls over financial reporting</p> <p>Bank's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.</p> <p>Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.</p>	<p>Our audit procedures included the following,</p> <ul style="list-style-type: none"> » We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures. » We identified and test checked relevant controls of IT systems related to the Bank's financial reporting process. » We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management. » We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the bank and the actions taken to address these risks. » We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

Independent Auditors' Report

Other information included in the Group's 2022 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Bank and the Group
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.



23rd February 2023
Colombo

Partners: H M A Jayasinghe FCA FCMA, R N de Sarani 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. G G S Manalunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACA, D L B Karunathilaka ACA, Ms. P S Paranavitane ACA 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		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Assets					
Cash and Cash Equivalents	6	58,747,889	13,427,451	58,747,775	13,427,531
Balances with Central Bank of Sri Lanka	7	6,074,330	6,915,197	6,074,330	6,915,197
Reverse Repurchase Agreements	8.1	1,502,266	3,001,370	1,502,266	3,001,370
Derivative Financial Instruments	9.1	102,730	472,864	102,730	472,864
Financial Assets – Recognised through Profit or Loss	10	3,733,781	6,150,508	3,733,781	6,150,508
Financial Assets at Fair Value through Other Comprehensive Income	11	30,349,526	67,520,760	30,349,526	67,520,760
Financial Assets at Amortised Cost – Debt Instruments	12	59,928,294	26,140,298	59,928,294	26,140,298
Financial Assets at Amortised Cost – Loans and Advances	13	241,241,061	247,441,428	241,241,061	247,441,428
Other Assets	14	3,376,120	2,013,560	3,400,016	2,046,476
Investments in Subsidiaries	15	678,710	678,710	-	-
Property, Plant and Equipment	16	2,547,745	2,330,679	3,494,975	3,298,248
Right of Use (ROU) Assets	17	1,492,460	1,622,825	1,311,693	1,351,245
Deferred Tax Assets	25	3,962,570	751,749	3,771,802	610,748
Intangible Assets	18	1,285,108	1,174,468	1,285,721	1,175,204
Total Assets		415,022,590	379,641,867	414,943,970	379,551,877
Liabilities					
Due to Banks	19	3,989,152	2,016,105	3,989,152	2,016,105
Derivative Financial Instruments	9.2	39,481	165,699	39,481	165,699
Financial Liabilities at Amortised Cost					
Due to Depositors	20	298,909,543	267,991,907	297,253,112	267,988,264
Repurchase Agreements	20	3,999,649	10,899,766	3,861,951	9,429,230
Due to Other Borrowers	20	33,740,900	35,601,356	33,532,796	35,305,349
Debt Securities Issued	21	12,355,121	12,352,873	12,355,121	12,352,873
Retirement Benefit Obligations	22.2	942,933	831,793	953,715	841,985
Current Tax Liabilities	23	5,179,372	2,440,631	5,242,809	2,460,712
Other Liabilities	24	11,640,212	8,802,901	11,675,175	8,832,668
Total Liabilities		370,796,363	341,103,031	368,903,312	339,392,885
Equity Attributable to Equity Holders of the Parent					
Stated Capital	26	10,401,432	9,408,135	10,401,432	9,408,135
Statutory Reserve Fund	27	2,228,472	1,882,111	2,228,472	1,882,111
Retained Earnings	28	30,650,134	26,911,909	32,026,947	28,072,893
OCI Reserve	29.1	56	(503,404)	56	(503,404)
Revaluation Reserve	29.2	946,133	840,085	1,383,751	1,299,257
Total Equity		44,226,227	38,538,836	46,040,658	40,158,992
Total Liabilities and Equity		415,022,590	379,641,867	414,943,970	379,551,877
Contingent Liabilities and Commitments	47	226,253,178	217,357,294	226,253,178	217,357,294
Net Assets Value per Ordinary Share (LKR)	49.2	146.70	135.77	152.72	141.48
Memorandum Information					
Number of Employees		2,455	2,648	2,479	2,677
Number of Branches		96	96	96	96
Number of Offsite ATMs & CRMs		35	32	35	32

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 101 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

Colombo
23rd February 2023



Rachini Rajapaksa
Director



Hemantha Gunetilleke
Director / CEO

Statement of Profit or Loss

For the Year Ended 31 December	Notes	Bank		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross Income		64,611,686	38,141,860	64,818,207	38,378,461
Interest Income	30	54,308,296	28,657,234	54,308,296	28,657,258
Interest Expense	31	(25,244,769)	(14,678,428)	(25,007,344)	(14,579,618)
Net Interest Income		29,063,527	13,978,806	29,300,952	14,077,640
Fee and Commission Income	32.1	7,531,495	6,433,245	7,738,016	6,669,822
Fee and Commission Expense	32.2	(943,548)	(529,462)	(943,548)	(529,463)
Net Fee and Commission Income		6,587,947	5,903,783	6,794,468	6,140,359
Net Gain/(Loss) from Trading	33	14,233,269	2,472,443	14,233,269	2,472,443
Net Fair Value Gains/(Losses) from Financial Instruments at Fair Value Through Profit or Loss	34	15,848	9,103	15,848	9,103
Net Gains/(Losses) on Derecognition of Financial Assets at Fair Value through Other Comprehensive Income		28,279	499,932	28,279	499,932
Other Operating Income/(Loss) - Net	35	(11,505,501)	69,903	(11,505,501)	69,903
Total Operating Income		38,423,369	22,933,970	38,867,315	23,269,380
Impairment Charges	36	(13,842,229)	(3,742,158)	(13,842,229)	(3,742,158)
Net Operating Income		24,581,140	19,191,812	25,025,086	19,527,222
Personnel Expenses	37	(5,956,837)	(4,587,018)	(5,999,378)	(4,619,680)
Depreciation of Property, Plant and Equipment	16	(303,640)	(394,030)	(345,810)	(436,260)
Depreciation of Right of Use (ROU) Assets	17	(477,936)	(483,961)	(387,410)	(393,435)
Amortization of Intangible Assets	18	(278,696)	(338,913)	(278,820)	(339,037)
Other Operating Expenses	38	(4,521,091)	(3,312,875)	(4,547,387)	(3,333,492)
Total Operating Expenses		(11,538,200)	(9,116,797)	(11,558,805)	(9,121,904)
Operating Profit before Taxes and Levies on Financial Services		13,042,940	10,075,015	13,466,281	10,405,318
Taxes and Levies on Financial Services	39	(3,019,071)	(1,984,686)	(3,021,066)	(1,985,444)
Profit before Income Tax		10,023,869	8,090,329	10,445,215	8,419,874
Income Tax Expense	40	(3,096,646)	(1,683,846)	(3,217,170)	(1,726,345)
Profit for the Year		6,927,223	6,406,483	7,228,045	6,693,529
Attributable to:					
Equity Holders of the Parent		6,927,223	6,406,483	7,228,045	6,693,529
Earnings Per Share					
Basic / Diluted Earnings Per Share - LKR	41	21.67	20.04	22.61	20.94
Dividend Per Share - LKR	42	4.00	3.50	4.00	3.50

The Notes to the Financial Statements from pages 101 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		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit for the Year		6,927,223	6,406,483	7,228,045	6,693,529
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	(3,550,913)	(1,621,935)	(3,550,913)	(1,621,935)
Transfer of fair value gains/(losses) o/a reclassification of debt instruments from fair value through other comprehensive income to amortised cost		3,669,876	-	3,669,876	-
Changes in Allowance for Expected Credit Losses	29.1	543,490	44,699	543,490	44,699
Income Tax related to the above	29.1 & 25	(198,736)	378,537	(198,736)	378,537
Deferred Tax Effect on Revision of Statutory Income Tax Rate	25	39,743	36,594	39,743	36,594
Net gains/(losses) on Financial Instruments at Fair Value through Other Comprehensive Income		503,460	(1,162,105)	503,460	(1,162,105)
Items that will not be reclassified to profit or loss in subsequent periods:					
Actuarial gain / (loss) on defined benefit plan	22.2	(72,620)	4,350	(71,475)	7,066
Income Tax related to the above	25	21,786	(1,044)	21,442	(1,451)
Deferred Tax Effect on Revision of Statutory Income Tax Rate	25	5,063	(3,549)	5,063	(3,653)
Net Gains / (Losses) on Actuarial Valuation of Defined Benefit Plan		(45,771)	(243)	(44,970)	1,962
Gain on Revaluation of Land & Buildings	29.2	246,244	-	267,238	-
Income Tax related to the above	29.2 & 25	(73,873)	-	(80,171)	-
Deferred Tax Effect on Revision of Statutory Income Tax Rate	25	(66,323)	44,215	(102,573)	68,382
Net Gain on Revaluation of Land & Buildings		106,048	44,215	84,494	68,382
Total items that will not be reclassified to the Statement of Profit or Loss		60,277	43,972	39,524	70,344
Other Comprehensive Income for the Year, Net of Tax		563,737	(1,118,133)	542,984	(1,091,760)
Total Comprehensive Income for the Year, Net of Tax		7,490,960	5,288,350	7,771,029	5,601,769
Attributable to:					
Equity Holders of the Parent		7,490,960	5,288,350	7,771,029	5,601,769

The Notes to the Financial Statements from pages 101 to 189 form an integral part of, and should be read in conjunction with, these Financial Statements.

Statement of Changes in Equity

BANK	Notes	Stated Capital		Statutory Reserve Fund	Retained Earnings	OCI Reserve	Revaluation Reserve	Total
		Voting	Non-Voting					
		LKR '000	LKR '000					
As at 01 January 2021		6,309,792	3,098,343	1,561,787	21,393,697	658,701	795,870	33,818,190
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
As at 01 January 2022		6,309,792	3,098,343	1,882,111	26,911,909	(503,404)	840,085	38,538,836
Charge related to Surcharge Tax	28	-	-	-	(1,803,385)	-	-	(1,803,385)
As at 01 January 2022 (Adjusted)		6,309,792	3,098,343	1,882,111	25,108,524	(503,404)	840,085	36,735,451
Profit for the year		-	-	-	6,927,223	-	-	6,927,223
Other Comprehensive Income		-	-	-	(45,771)	503,460	106,048	563,737
Total Comprehensive Income		-	-	-	6,881,452	503,460	106,048	7,490,960
Scrip Dividends for 2021	26 & 28	857,796	135,501	-	(993,297)	-	-	-
Fractions of shares paid in cash for 2021		-	-	-	(184)	-	-	(184)
Conversion of Non Voting Shares to Voting Shares	26	284	(284)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	346,361	(346,361)	-	-	-
As at 31 December 2022		7,167,872	3,233,560	2,228,472	30,650,134	56	946,133	44,226,227

GROUP	Notes	Stated Capital		Statutory Reserve Fund	Retained Earnings	OCI Reserve	Revaluation Reserve	Total
		Voting	Non-Voting					
		LKR '000	LKR '000					
As at 01 January 2021		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
As at 01 January 2022		6,309,792	3,098,343	1,882,111	28,072,893	(503,404)	1,299,257	40,158,992
Charge related to Surcharge Tax	28	-	-	-	(1,889,179)	-	-	(1,889,179)
As at 01 January 2022 (Adjusted)		6,309,792	3,098,343	1,882,111	26,183,714	(503,404)	1,299,257	38,269,813
Profit for the year		-	-	-	7,228,045	-	-	7,228,045
Other Comprehensive Income		-	-	-	(44,970)	503,460	84,494	542,984
Total Comprehensive Income		-	-	-	7,183,075	503,460	84,494	7,771,029
Scrip Dividends for 2021	26 & 28	857,796	135,501	-	(993,297)	-	-	-
Fractions of shares paid in cash for 2021		-	-	-	(184)	-	-	(184)
Conversion of Non Voting Shares to Voting Shares	26	284	(284)	-	-	-	-	-
Transfers to the Statutory Reserve Fund	27.2	-	-	346,361	(346,361)	-	-	-
As at 31 December 2022		7,167,872	3,233,560	2,228,472	32,026,947	56	1,383,751	46,040,658

The Notes to the Financial Statements from pages 101 to 189 form an integral part of, and should be read in conjunction with, these Financial Statements.

Statement of Cash Flows

For the Year Ended 31 December	Notes	Bank		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash Flows from Operating Activities					
Receipts of Interest Income		60,172,606	29,460,894	60,172,606	29,460,918
Payments of Interest Expense		(19,625,455)	(13,934,816)	(19,150,604)	(13,872,573)
Receipts of Fees and Commission Income		7,648,081	7,074,253	7,854,602	7,310,830
Payments of Fees and Commission Expense		(943,548)	(528,802)	(943,548)	(528,802)
Net Trading Income		14,477,185	2,654,043	14,477,185	2,654,043
Realised gain on sale of Financial Investments at FVOCI		28,279	9,103	28,279	9,103
Receipts from Other Operating Income		2,137,250	60,562	2,137,250	60,562
Gratuity Payments Made		(143,956)	(92,351)	(143,956)	(92,351)
Payments for Operating Expenses		(9,128,936)	(7,240,450)	(9,197,776)	(7,291,997)
Payments for VAT on Financial Services		(2,860,494)	(1,776,216)	(2,862,489)	(1,776,974)
Net Cash Flow from Operating Activities before Income Tax (A)		51,761,012	15,686,220	52,371,549	15,932,757
Income Tax paid		(3,841,067)	(1,696,440)	(3,911,357)	(1,745,961)
Surcharge Tax Paid		(1,803,385)	-	(1,889,179)	-
Operating Profit before Changes in Operating Assets and Liabilities		46,116,560	13,989,780	46,571,013	14,186,796
(Increase)/Decrease in Operating Assets	43.1	36,994,562	(37,267,168)	36,547,059	(37,273,739)
Increase/(Decrease) in Operating Liabilities	43.2	(16,927,985)	29,883,738	(17,045,045)	29,591,359
Net Cash Flows from Operating Activities		66,183,137	6,606,350	66,073,027	6,504,416
Cash Flows from Investing Activities					
Purchase of Property, Plant and Equipment	16	(278,518)	(51,901)	(278,933)	(52,632)
Proceeds from Sale of Property, Plant and Equipment and Intangible Assets		8	314	8	314
Purchase of Intangible Assets	18	(389,336)	(291,962)	(389,336)	(291,962)
		(667,846)	(343,549)	(668,261)	(344,280)
Cash Flows from Financing Activities					
Proceeds from Other Borrowed Funds		1,054,973	7426,670	1,054,973	7,426,670
Repayment of Other Borrowed Funds		(21,705,194)	(600,000)	(21,705,194)	(600,000)
Proceeds from the issue of Debentures		-	4,000,000	-	4,000,000
Repayment of Subordinated Debt		-	(5,000,000)	-	(5,000,000)
Operating Lease Rentals Paid	17.4	(623,182)	(554,712)	(512,850)	(452,048)
Interest Paid on Subordinated Debt		(1,397,705)	(1,650,466)	(1,397,705)	(1,650,466)
Dividends Paid		(184)	(546,359)	(184)	(546,359)
		(22,671,292)	3,075,133	(22,560,960)	3,177,797
Net Increase/(Decrease) in Cash and Cash Equivalents		42,843,999	9,337,935	42,843,806	9,337,933
Cash and Cash Equivalents at the beginning of the period		19,833,478	10,495,544	19,833,558	10,495,625
Cash and Cash Equivalents at the end of the period		62,677,477	19,833,478	62,677,364	19,833,558
Reconciliation of Cash and Cash Equivalents					
Cash in Hand	6	10,087,206	9,345,250	10,087,229	9,345,273
Balances with Central Bank of Sri Lanka*	7	6,074,330	6,915,197	6,074,330	6,915,197
Balances with Banks	6	45,307,864	4,082,735	45,307,728	4,082,792
Money at Call and Short Notice	6	3,374,121	-	3,374,121	-
Deposits from Other Banks	19	(2,166,044)	(509,704)	(2,166,044)	(509,704)
		62,677,477	19,833,478	62,677,364	19,833,558
A. Reconciliation of Operating Profit					
Profit before Income Tax		10,023,869	8,090,329	10,445,215	8,419,874
(Profit) / Loss on disposal of Property, Plant and Equipment and Intangible Assets		147	(237)	147	(237)
Impairment charge / (Reversal)	36	13,842,229	3,742,158	13,842,229	3,742,158
Provision for Gratuity	37	188,544	157,769	190,279	159,502
Other Non Cash Items**	43.3	14,509,589	1,235,830	14,461,357	1,151,093
Interest Paid on Subordinated Debt		1,397,705	1,650,467	1,397,705	1,650,467
Gratuity Payments Made		(143,956)	(92,351)	(143,956)	(92,352)
(Increase) / Decrease in Interest Receivable		5,908,427	671,204	5,908,427	671,201
Increase / (Decrease) in Interest Payable		4,642,964	(1,120,762)	4,642,964	(1,120,762)
Increase / (Decrease) in Financial Guarantee Liabilities & Deferred Income		116,586	641,008	116,586	641,008
Increase / (Decrease) in Fees & Commission and Operating Expenses Payable		1,274,908	710,804	1,510,596	710,804
		51,761,012	15,686,220	52,371,549	15,932,757

* Above balance includes the year end balance held for Statutory Reserve Requirement (SRR) purposes with Central Bank of Sri Lanka (CBSL). The SRR needs to be maintained based on average balance with CBSL for a two-weeks period. The SRR requirement for the period ended 31 December 2022 was Rs. 6,259 Mn (2021 - Rs.6,685 Mn) and has been maintained by the Bank.

**This mainly includes the net translation difference on the foreign currency assets and liabilities except the cash and cash equivalent

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 2022 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	Investment Management
Allied Properties Limited	Renting out premises
Nations Insurance Brokers Limited	Insurance broking

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 91.

2.3 Approval of Financial Statements by Directors

The Consolidated Financial Statements of Nations Trust Bank PLC, for the year ended 31 December 2022 were authorized for issue in accordance with the resolution of the Board of Directors on 23 February 2023.

2.4 Basis of measurement

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

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

2.5 Functional and Presentation Currency

The 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.

Notes to the Financial Statements

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

2.6 Presentation of Financial Statements

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

2.7 Materiality and aggregation

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

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

2.8 Changes in Accounting Policies

2.8.1 New and amended standards and interpretations

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

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

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

2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Bank's consolidated financial statements requires management to make 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 negative externalities prevailed during the year pandemic could bring to business operations of the Bank. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

(ii) Fair Value of Financial Instruments

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

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

(iii) Impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Life Time Expected Credit Loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

(iv) Fair Value of Land and Buildings

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

The Group measures freehold land and buildings at fair value with changes in fair value being recognized in Other Comprehensive Income. The Group engages independent valuation specialists to determine fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard SLFRS 13 – Fair Value Measurement.

Lands were valued by reference to market-based evidence, using comparable prices adjusted for specific

market factors such as nature, location and condition of the property, while buildings were valued based on depreciated replacement cost.

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

(v) Useful Life-time of the Property, Plant and Equipment

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

(vi) Employee Benefit Liability – Gratuity

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

(vii) Share-Based Payments

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

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

(viii) Taxation

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

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made,

Notes to the Financial Statements

or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made. (Note 25 and 40).

(ix) Deferred Tax Assets

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

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

(x) Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the normal course of business. 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 2022 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 derecognises 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 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

Notes to the Financial Statements

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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 favourable movements in rates. Derivatives entered for risk management purposes that do not meet the hedge accounting criteria are also included under this classification.

(iii) Financial assets or financial liabilities held for trading

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

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

(iv) Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income on debt instruments at FVOCI is recognised in Profit or Loss. The ECL calculation for debt instruments at FVOCI is explained in Note 3.5. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to Profit or Loss.

(v) Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading.

Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to Profit or Loss. Dividends are recognised in Profit or Loss as 'other operating income' when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

(vi) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

(vii) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under SLFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
- or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- or
- The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in Profit and

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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, letters 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 letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position. The nominal values of these instruments are disclosed in Note 47.

3.3.3 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

3.3.4 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 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

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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 derecognised 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 negative externalities prevailed during the year 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.

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).

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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 letters 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 recognised 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 derecognising 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 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

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of collateral. The Bank classifies a loan as a "Rescheduled Loan" when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Management Department. A rescheduling of a loan may involve extending the payment arrangements and the agreement of new loan conditions. If modifications are substantial, the loan is derecognised. 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 derecognised. 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.

Notes to the Financial Statements

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

The Bank computed the income tax liability on profit from the Domestic Banking Unit and on-shore operations of the Foreign Currency Banking Unit, for the first six months of the year of assessment 2022/23 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the Bank for the second six months of the year of assessment 2022/23.

The deferred tax assets/liabilities of the Group as at 31st December 2022 were computed using the revised income tax rate of 30%.

Subsidiary – Waldock Mackenzie Limited and Nations Insurance Brokers Limited

The Company computed the income tax liability, for the first six months of the year of assessment 2022/23 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the subsidiary for the second six months of the year of assessment 2022/23.

Subsidiary – Allied Properties Limited

In terms of a BOI Agreement, the company enjoyed a concessionary tax rate of 2% on its turnover for a period of 15 years from 01 April 2007. This concessionary period was expired 31 March 2022 and the Company computed the income tax liability at the income tax rate of 24% thereafter. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the subsidiary for the second six months of the year of assessment 2022/23.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability is not recognised for;

- temporary differences on the initial recognition of goodwill, assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future

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. Unrecognised 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.

(iv) Social Security Contribution Levy (SSCL)

The social Security Contribution Levy Act No 25 of 2022 came in effect with effect from 1st October 2022. Accordingly Value Addition attribution to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act, No. 14 of 2002

Notes to the Financial Statements

(v) VAT (Value added Tax)

As per the Value Added Tax (Amendment) Act No. 44 of 2022, both Allied Properties Limited and Nations Insurance Brokers Limited were liable for VAT w.e.f 24th December 2022 and 23rd December 2022 respectively.

3.13 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the Profit or Loss net of any reimbursement.

3.14 Fiduciary Assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the Financial Statements, as they are not the assets of the Group.

3.15 Equity reserves

The reserves recorded in equity (OCI) on the Group's statement of financial position include fair value reserves which comprises:

- the cumulative net change in the fair value of debt instruments classified at FVOCI, less the allowance for ECL
- the cumulative net change in fair value of equity instruments at FVOCI

3.16 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date. (Note 50).

Basic/diluted Earnings per Share is calculated by dividing the net profit for the year attributable to Ordinary Shareholders of the Bank by the weighted average number of Ordinary Shares in issue during the year.

3.17 Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Direct Method' in accordance with LKAS 7 on Statement of Cash Flows, whereby cash receipts

and cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents as referred to in the statement of cash flows comprises of cash in hand, balances with the Central Bank of Sri Lanka, amounts due from banks on demand or with original maturity of three months or less net of amount due to banks.

3.18 Fair Value of Assets and Liabilities

Determination of Fair Value

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.

Notes to the Financial Statements

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.

(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 SME Banking, Leasing, Treasury functions, Investment Banking, Insurance Broking and Property Management.

For management purposes, the Group is organised into operating segments based on customer segments and products, as follows:

- **Corporate Banking:** Primary focus of business is providing loans and other credit facilities and mobilizing deposit and current accounts from top to mid tier corporate and institutional customers
- **Consumer and Commercial Banking:** Primary focus of business is deposit mobilization from high 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 based on the Bank's internal pricing framework.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

Note 4 presents income and expenses and certain asset and liability information regarding the Group's operating segments.

3.21 Standards issued but not yet effective

The new and amended standards that are issued, but not yet effective to the date of issuance of these financial statements are disclosed below.

- **Definition of Accounting Estimates – Amendments to LKAS 8**

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

- **Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to LKAS 12**

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement whether such deductions are attributable for tax purposes to the liability recognised in the financial statements or to the related asset component. This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

- **Amendments to LKAS 1 and IFRS Practice Statement 2**

The amendments provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

- **Classification of Liabilities as Current or Noncurrent – Amendments to LKAS 1**

The amendment specify the requirements for classifying liabilities as current or non-current. The amendments clarify what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification and disclosures.

All of the above amendments are effective for annual reporting periods beginning on or after 1 January 2023.

- **SLFRS 17 – Insurance Contracts**

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025. The Bank/Group expects that the implementation of this standard may not have a material impact on the financial statements of the group.

Notes to the Financial Statements

4 Segment Information

4.1 Operating Segments

For the Year Ended 31 December 2022
LKR'000

	Corporate Banking	Consumer & Commercial Banking	Treasury & Investments	Insurance Brokering	Property Management	Unallocated/ Eliminations	Total Group
Operating Income	9,960,853	20,162,493	8,303,031	234,948	281,495	(75,505)	38,867,315
Impairment Charges	(3,577,171)	(6,736,590)	(3,528,469)	-	-	-	(13,842,229)
Net Operating Income	6,383,682	13,425,904	4,774,562	234,948	281,495	(75,505)	25,025,086
Extracts of Results							
Interest Income	17,746,969	20,653,849	15,741,577	84,293	112,758	(31,150)	54,308,296
Inter Segment	(6,622,965)	8,803,211	(2,180,246)	-	-	-	-
Interest Expense	(2,987,258)	(16,136,208)	(6,046,277)	(1,823)	(1,319)	165,541	(25,007,344)
Net Interest Income	8,136,746	13,320,852	7,515,054	82,470	111,439	134,390	29,300,952
Net Fees and Commission Income	1,350,067	5,261,789	90,298	152,478	170,055	(230,219)	6,794,468
Net Gain/(Loss) from Trading	474,040	562,169	13,197,060	-	-	-	14,233,269
Net Fair Value Gains/(Losses) From Financial Instruments at Fair Value Through Profit or Loss	-	-	15,848	-	-	-	15,848
Net Gains/(Losses) on Derecognition of Financial Assets at Fair Value through Other Comprehensive Income	-	-	28,279	-	-	-	28,279
Other Operating Income/(Loss) - Net	-	1,017,683	(12,543,507)	-	-	20,323	(11,505,501)
Depreciation of Property, Plant and Equipment	(24,124)	(267,148)	(9,995)	(551)	(19,359)	(24,633)	(345,810)
Depreciation of Right of Use (ROU) Assets	-	(477,936)	-	(5,717)	-	96,243	(387,410)
Amortization of Intangible Assets	(66,303)	(190,087)	(21,340)	(124)	-	(966)	(278,820)
Capital Expenditures							
Property, Plant and Equipment	3,928	26,233	2,284	433	296	160,082	193,255
Intangible Assets	-	1,350	120,932	-	-	300,117	422,398
Total Assets (as at)	110,435,027	146,849,265	160,625,911	729,187	1,374,629	(5,070,049)	414,943,970
Total Liabilities (as at)	57,023,652	246,393,916	55,222,811	58,711	59,322	10,144,795	368,903,312

4.2 Operating Segments

For the Year Ended 31 December 2021
LKR'000

	Corporate Banking	Consumer & Commercial Banking	Treasury & Investments	Insurance Brokering	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 Gain/(Loss) 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	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	7,823,173	339,392,885

Notes to the Financial Statements

5 Analysis of Financial Instruments by Measurement Basis

As at 31 December	Bank/Group					
	2022			2021		
	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000	FVPL Rs. '000	FVOCI Rs. '000	Total Rs. '000
Assets						
Derivative Financial Instruments	102,730	-	102,730	472,864	-	472,864
Government Securities	3,733,781	30,322,505	34,056,286	6,150,508	67,503,862	73,654,370
Equity Instruments	-	27,021	27,021	-	16,898	16,898
Total Financial Assets	3,836,511	30,349,526	34,186,037	6,623,372	67,520,760	74,144,132
Liabilities						
Derivative Financial Instruments	39,481	-	39,481	165,699	-	165,699
Total Financial Liabilities	39,481	-	39,481	165,699	-	165,699

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	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Cash in Hand	10,087,206	9,345,250	10,087,228	9,345,273
Balances with Banks	45,307,864	4,082,735	45,307,728	4,082,792
Money at Call and Short Notice	3,374,121	-	3,374,121	-
	58,769,191	13,427,985	58,769,077	13,428,065
Less: Provision for Impairment for Balances with Banks (Note 6.1)	(21,302)	(534)	(21,302)	(534)
	58,747,889	13,427,451	58,747,775	13,427,531

6.1 Movement in provision for impairment during the year

	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
Stage 1 Impairment		
Balance as at 01 January	534	196
Charge / (Write back) to the Income Statement (Note 36)	20,768	338
Balance as at 31 December	21,302	534

7 Balances with Central Bank of Sri Lanka

As at 31 December	Bank/ Group	
	2022 LKR '000	2021 LKR '000
Statutory Balance with Central Bank of Sri Lanka	6,074,330	6,813,183
Non Statutory Balance with Central Bank of Sri Lanka	-	102,014
	6,074,330	6,915,197

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 2022, the minimum cash reserve requirement was 4.0% (2021: 4.0%) 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	
	2022 LKR '000	2021 LKR '000
Due from;		
- Banks	-	-
- Other Financial Institutions	1,502,266	3,001,370
	1,502,266	3,001,370

The fair value of collateral held under reverse repurchase agreements by the Bank/ Group amounts to LKR 1,691.26 Mn (2021- LKR 3,357.91 Mn.)

8.2 Repurchase agreements

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
On Securities of Government of Sri Lanka				
Due to;				
- Banks (Note 19)	-	-	-	-
- Other Financial Institutions	253,215	4,638,501	253,215	4,638,501
- Other Counterparties	3,711,450	5,555,809	3,573,752	4,126,504
	3,964,665	10,194,310	3,826,967	8,765,005
On Other Securities				
Due to;				
- Other Counterparties	34,984	705,456	34,984	664,225
	34,984	705,456	34,984	664,225
Total Repurchase Agreements	3,999,649	10,899,766	3,861,951	9,429,230
Repurchase Agreements other than with banks (Note 20)	3,999,649	10,899,766	3,861,951	9,429,230

Notes to the Financial Statements

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
	2022	2022	2021	2021
As at 31 December	LKR '000	LKR '000	LKR '000	LKR '000
Foreign Currency Derivatives				
- Currency Swaps	97,456	17,897,692	470,026	17,709,283
- Forward Foreign Exchange Contracts	-	-	2,822	150,150
- Spot Contracts	5,274	286,952	16	70,312
	102,730	18,184,644	472,864	17,929,745

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
	2022	2022	2021	2021
As at 31 December	LKR '000	LKR '000	LKR '000	LKR '000
Foreign Currency Derivatives				
- Currency Swaps	39,237	4,191,781	163,974	13,303,987
- Forward Foreign Exchange Contracts	-	-	577	33,826
- Spot Contracts	244	10,871	1,148	134,596
	39,481	4,202,652	165,699	13,472,409

10 Financial Assets – Recognised Through Profit or Loss

As at 31 December	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
Measured at Fair Value		
Government of Sri Lanka Treasury Bills	3,515,739	6,150,508
Government of Sri Lanka Treasury Bonds	218,042	-
	3,733,781	6,150,508

10.1 Analysis

As at 31 December	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
By collateralisation		
Pledged as collateral	-	-
Unencumbered	3,733,781	6,150,508
	3,733,781	6,150,508
By currency		
Sri Lankan Rupee	3,733,781	6,150,508
United States Dollar	-	-
	3,733,781	6,150,508

11 Financial Assets at Fair Value Through Other Comprehensive Income

As at 31 December	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
Debt Instruments		
- Government of Sri Lanka Treasury Bills	24,819,094	40,595,858
- Government of Sri Lanka Treasury Bonds	5,025,334	26,469,868
- Sri Lanka Sovereign Bonds	478,077	438,136
Equity Instruments (Note 11.1)	27,021	16,898
	30,349,526	67,520,760

Notes to the Financial Statements

11.1 Equity Instruments at Fair Value through Other Comprehensive Income

As at 31 December	Bank/ Group	
	2022 LKR '000	2021 LKR '000
Lanka Clear (Private) Limited		
150,000 Ordinary Shares of LKR 10/- each	1,500	1,500
Credit Information Bureau (CRIB)		
9,000 Ordinary Shares of LKR 10/- each	90	90
Lanka Financial Services Bureau		
300,000 Ordinary Shares of LKR 10/- each	3,000	3,000
Society of Worldwide Interbank Financial Telecommunication (SWIFT)		
12 Ordinary Shares	22,431	12,308
	27,021	16,898

11.2 Analysis

As at 31 December	Bank/ Group	
	2022 LKR '000	2021 LKR '000
By collateralisation		
Pledged as collateral	4,690,983	11,496,201
Unencumbered	25,658,543	56,024,559
	30,349,526	67,520,760
By currency		
Sri Lankan Rupee	29,849,018	67,070,316
United States Dollar	500,508	450,444
	30,349,526	67,520,760

12 Financial Assets at Amortised Cost - Debt Instruments

As at 31 December	Bank/ Group	
	2022 LKR '000	2021 LKR '000
Government of Sri Lanka Treasury Bonds (12.4)	52,900,801	13,770,272
Sri Lanka Development Bonds	1,881,807	8,523,786
Sri Lanka Sovereign Bonds	8,927,364	4,141,009
Unquoted Debentures (Note 12.1)	769,901	769,901
Less: Provision for Impairment (Note 12.3)	(4,551,579)	(1,064,670)
	59,928,294	26,140,298

12.1 Quoted Debentures

As at 31 December

Company	Type	No of Debentures		LKR '000	
		2022	2021	2022	2021
Commercial Leasing & Finance PLC	Unsecured, Redeemable Debentures	500,000	500,000	514,240	514,240
LOLC Ceylon Holdings PLC	Senior Listed, Redeemable Debentures	2,500,000	2,500,000	255,661	255,661
		3,000,000	3,000,000	769,901	769,901

12.2 Analysis

As at 31 December	Bank/ Group	
	2022 LKR '000	2021 LKR '000
By collateralisation		
Pledged as collateral	1,528,935	749,374
Unencumbered	58,399,359	25,390,924
	59,928,294	26,140,298
By currency		
Sri Lankan Rupee	53,670,502	14,540,044
United States Dollar	6,257,792	11,600,254
	59,928,294	26,140,298

12.3 Movement in impairment during the year

	Bank / Group					
	2022			2021		
	Stage 01 LKR '000	Stage 02 LKR '000	Total LKR '000	Stage 01 LKR '000	Stage 02 LKR '000	Total LKR '000
As at 01 January	1,064,670	-	1,064,670	353,962	-	353,962
Transfer to Stage 01	-	-	-	-	-	-
Transfer to Stage 02	(1,064,542)	1,064,542	-	-	-	-
Net remeasurement of impairment	72	4,072,417	4,072,489	748,506	-	748,506
Financial assets derecognised or repaid (excluding write off)	-	(585,580)	(585,580)	(37,798)	-	(37,798)
Write -off	-	-	-	-	-	-
New assets originated or purchased	-	-	-	-	-	-
As at 31 December	200	4,551,379	4,551,579	1,064,670	-	1,064,670

* No impairment recognised under Stage 03 as at 31 December 2022 and 2021.

Notes to the Financial Statements

12.4 Considering the unprecedented changes in the macro-economic conditions and resulted changes to the business model of managing the assets, the Bank re-classified part of its investment in Treasury Bonds issued by the Government of Sri Lanka amounting to LKR 20,960 Mn from Fair Value Through Other Comprehensive Income (FVOCI) to Amortized Cost with effect from 1 April 2022, in accordance with the "Statement of Alternative Treatment (SoAT) on Re-classification of Debt Portfolio" issued by the Institute of Chartered Accountants of Sri Lanka. There was no change to the effective interest rate used and interest income recognized on account reclassified treasury bonds portfolio for the period under review. If these financial assets were continued in the FVOCI category without the reclassification, carrying value of the portfolio, fair value loss from the reclassification date to reporting date and the impact on the equity as at the reporting date would be LKR 21,651 Mn, LKR 1,712 Mn and LKR 3,561 Mn respectively.

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 of Loans & Advances.

Bank/Group	2022				2021			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross Loans & Advances as at 01st January	218,435,488	25,030,658	15,003,086	258,469,232	188,702,042	5,484,987	24,575,616	218,762,645
Transfer to Stage 1	4,745,026	(4,279,478)	(465,548)	-	3,586,710	(2,350,255)	(1,236,455)	-
Transfer to Stage 2	(15,452,422)	15,751,222	(298,800)	-	(13,199,837)	18,328,617	(5,128,780)	-
Transfer to Stage 3	(3,196,702)	(1,682,438)	4,879,140	-	(1,817,915)	(474,425)	2,292,340	-
New assets originated or purchased	73,857,094	9,151,274	3,182,008	86,190,376	103,699,597	3,531,146	425,025	107,655,768
Net Movement in Allowance for day 1 difference of staff loans*	(124,291)	-	-	(124,291)	159,816	-	-	159,816
Financial assets derecognised or repaid (excluding write-offs)	(86,061,801)	(8,548,492)	(2,214,108)	(96,824,401)	(62,694,925)	(2,018,670)	(6,869,273)	(71,582,868)
Write-offs	-	-	(2,124,621)	(2,124,621)	-	-	(540,150)	(540,150)
Changes to contractual cash flows due to modifications not resulting in derecognition	-	12,930,617	1,553,324	14,483,941	-	2,529,258	1,484,763	4,014,021
Gross Loans & Advances as at 31 December	192,202,392	48,353,363	19,514,481	260,070,236	218,435,488	25,030,658	15,003,086	258,469,232
Provision for impairment (ECL) (Note 13.5)	1,683,496	6,836,523	10,309,156	18,829,175	1,442,137	1,679,978	7,905,688	11,027,804
Net Loan and Advances	190,518,896	41,516,840	9,205,325	241,241,061	216,993,351	23,350,680	7,097,397	247,441,428

Gross loans included under Stage 1 reflects the balance net of allowance for day 1 difference of staff loans of LKR 669.23 Mn (2021 - LKR 544.943 Mn) (Note 14) which add on to LKR 260,739.47 Mn (2021 - 259,014.17 Mn.)

Gross amount of loans & advances individually determined to be impaired, before deducting individually assessed impairment allowance amounts to LKR 43,654 Mn (2021 - LKR 15,554 Mn).

Impairment provision made in respect of commitment and contingent liabilities amounts to LKR 971.84 Mn (2021 - LKR 474.81 Mn) and 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 classifies 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 12,931 Mn (2021- LKR 2,530 Mn) worth of loans in 2022 whilst loans amounted to LKR 1,553Mn (2021-LKR 1,485 Mn) were rescheduled during the same period. During 2022, the bank upgraded restructured and rescheduled loans amounted to LKR 204 Mn to Stage 1 (2021- LKR 1,925 Mn). Out of loans upgraded in current and previous years, a restructured loan sum of LKR 3,298 Mn (2021 - LKR 2,285Mn) and rescheduled loan sum of LKR 1,664 Mn (2021- LKR 2,285 Mn) were classified in Stage 2 or 3 as of the end of the reporting 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	
	2022 LKR '000	2021 LKR '000
Bills of Exchange	50,289	14,077
Trade Finance	65,276,528	62,511,952
Overdrafts	45,534,151	37,710,535
Term Loans	90,900,204	87,427,504
Staff Loans	3,510,156	3,818,727
Leases (Note 13.5)	26,482,193	34,828,770
Credit Cards	28,686,834	32,155,760
Pawning	36,166	283,900
Other Advances	262,950	262,950
	260,739,471	259,014,175

13.3 Gross Loans and Advances by Currency

As at 31 December	Bank/Group	
	2022 LKR '000	2021 LKR '000
Sri Lanka Rupee	213,568,436	219,942,485
United States Dollar	46,966,172	37,561,274
Great Britain Pound	30,093	30,644
Others	174,770	1,479,772
	260,739,471	259,014,175

Notes to the Financial Statements

13.4 Gross Loans and Advances by Industry

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

13.5 Movement in provision for impairment (ECL) during the year

Bank/Group	2022				2021			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 1st January	1,442,138	1,679,978	7,905,688	11,027,804	1,083,661	621,865	6,871,632	8,577,159
Transfer to Stage 1	264,770	(111,345)	(153,425)	-	434,409	(98,365)	(336,044)	-
Transfer to Stage 2	(150,268)	219,499	(69,231)	-	(81,162)	126,045	(44,883)	-
Transfer to Stage 3	(61,943)	(152,939)	214,882	-	(34,021)	(31,351)	65,371	-
Net remeasurement of impairment	(339,914)	4,157,161	3,695,771	7,513,018	(82,658)	1,017,943	2,214,467	3,149,752
Financial assets derecognised or repaid (excluding write-offs)	(178,328)	(295,770)	(213,304)	(687,402)	(171,210)	(42,963)	(792,586)	(1,006,758)
Write-offs	-	-	(2,066,105)	(2,066,105)	-	-	(540,150)	(540,150)
New assets originated or purchased	691,692	1,317,676	994,880	3,004,248	293,119	86,802	467,881	847,802
Effect of change in foreign currency exchange rates	15,349	22,263	-	37,612	-	-	-	-
As at 31st December	1,683,496	6,836,523	10,309,156	18,829,175	1,442,138	1,679,978	7,905,688	11,027,804

In response to negative externalities prevailed during the year and the Bank's expectations of economic impacts of the same, key assumptions used in the Bank's calculation of ECL have been revised. As of the reporting date, the expected impacts have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome.

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. The bank evaluated the total loan book during the identification of risk elevated customers. 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. was carried out. The additional ECL provisions as a management overlay are provided to absorb any potential economic shocks anticipated.

13.6 Rental Receivable on Leases

As at 31 December	2022				2021			
	Bank/Group				Bank/Group			
	Within 1 year	1 - 5 years	Over 5 years	Total	Within 1 year	1 - 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross Rentals Receivables	13,465,518	19,059,127	2,931,435	35,456,080	15,246,882	23,319,748	9,802,088	48,368,717
Less : Unearned Income	(3,954,282)	(5,018,660)	(945)	(8,973,887)	(3,604,762)	(5,925,414)	(4,009,771)	(13,539,947)
Net Rentals Receivables	9,511,236	14,040,467	2,930,490	26,482,193	11,642,120	17,394,334	5,792,317	34,828,770
Less : Allowance for Impairment Losses	-	-	-	(1,430,925)	-	-	-	(1,542,943)
Total Net Rentals Receivables	9,511,236	14,040,467	2,930,490	25,051,268	11,642,120	17,394,334	5,792,317	33,285,827

14 Other Assets

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Deposits and Prepayments	646,408	329,019	654,975	337,498
Unamortised Staff Cost (Note 13.1)	669,233	544,944	669,233	544,944
Senior Citizen interest reimbursement	1,138,765	595,965	1,138,765	595,965
Other Receivables	941,039	573,989	964,217	606,275
Less: Impairment for Other Receivables (Note 14.1)	(19,325)	(30,357)	(27,174)	(38,206)
	3,376,120	2,013,560	3,400,016	2,046,476

14.1 Movement in Impairment during the year

	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance as at 01 January	30,357	30,107	38,206	37,956
Charge / (write back) to income statement (Note 36)	(1,152)	8,543	(1,152)	8,543
Write -off during the Year	(9,880)	(8,293)	(9,880)	(8,293)
Balance as at 31 December	19,325	30,357	27,174	38,206

15 Investments in Subsidiaries

Unquoted	Country of Incorporation	Bank			
		2022 Holding	2021 Holding	2022 Cost	2021 Cost
Name of Company		%	%	LKR '000	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
				678,710	678,710

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
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost										
As at 01 January 2021	1,578,900	148,000	1,050,248	4,969	841,553	2,467,392	895,101	4,34,823	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	898,818	4,34,823	827	7,464,730
Additions	-	-	510	-	25,356	115,316	30,965	21,108	-	193,255
Disposals	-	-	-	-	(25,307)	(1,647)	(1,946)	-	-	(28,901)
Revaluation Surplus	170,100	-	97,138	-	-	-	-	-	-	267,238
Accumulated depreciation adjustment on revaluation	-	-	(117,809)	-	-	-	-	-	-	(117,809)
Capital WIP - Additions during the year	-	-	-	-	-	-	-	-	86,811	86,811
Capital WIP - Capitalized during the year	-	-	-	-	-	-	-	-	(827)	(827)
As at 31 December 2022	1,749,000	148,000	1,030,087	4,969	848,032	2,613,831	927,836	455,931	86,811	7,864,497
Depreciation / Amortization										
As at 01 January 2021	-	28,241	39,170	4,667	637,147	1,962,373	700,147	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	750,902	395,034	-	4,166,482
Charge for the year	-	1,893	39,428	-	45,186	196,984	42,421	19,898	-	345,810
Disposals	-	-	-	-	(21,521)	(1,647)	(1,792)	-	-	(24,961)
Accumulated depreciation adjustment on revaluation	-	-	(117,809)	-	-	-	-	-	-	(117,809)
As at 31 December 2021	-	32,027	201	4,667	725,495	2,400,670	791,530	414,932	-	4,369,522
Net Book Value										
At 01 January 2021	1,578,900	119,759	1,011,078	302	204,406	505,019	194,954	67,333	201	3,681,952
At 31 December 2021	1,578,900	117,866	971,666	302	146,153	294,829	147,916	39,789	827	3,298,248
At 31 December 2022	1,749,000	115,973	1,029,886	302	122,537	213,161	136,306	40,999	86,811	3,494,975

During the financial year, the Group acquired property, plant and equipment to the aggregate value of LKR 193 Mn. (2021 - LKR 52 Mn.). Cash payments amounting to LKR 279.2 Mn (2021- LKR 52.6 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 369.4 Mn (2021- LKR 2,932Mn).

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	2022		2021	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	LKR '000	LKR '000	LKR '000	LKR '000
Freehold Land	559,440	-	559,440	-
Freehold Building	591,042	235,101	356,866	232,074
Total	1,150,482	235,101	916,306	232,074
				918,408
				559,440
				358,968

Notes to the Financial Statements

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	Building	Land	Building	Land	Building	Total
		LKR' Mn	LKR' Mn	LKR' Mn	LKR' Mn	LKR' Mn	LKR' Mn	LKR' Mn
No.242, Union Place, Colombo 02	31 - 12 - 2022	1,377,000	125,591	1,530,000	178,488	153,000	52,897	205,897
No.76, York Street Fort, Colombo 01	31 - 12 - 2022	201,900	21,753	219,000	45,000	17,100	23,247	40,347
Total - Bank		1,578,900	147,344	1,749,000	223,488	170,100	76,144	246,244
No.46/58, Navam Mawatha, Colombo 02	31 - 12 - 2022	-	788,457	-	809,450	-	20,993	20,993
Total - Group *		1,578,900	935,801	1,749,000	1,032,938	170,100	97,137	267,237

* 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:

The incremental borrowing rate used for the new agreements entered into during the year 2022 was 20% (2021 - 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 2021	1,939,759	212,169	48,966	2,200,894	1,939,758	212,171	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	212,169	48,966	2,673,851	2,050,609	212,171	48,966	2,311,746
Additions	392,143	-	2,872	395,015	392,143	-	2,872	395,015
Disposals / Derecognition	(180,988)	-	-	(180,988)	(180,988)	-	-	(180,988)
As at 31 December 2022	2,623,871	212,169	51,838	2,887,878	2,261,764	212,171	51,838	2,525,773
	-	-	-					
Depreciation								
As at 01 January 2021	627,374	58,852	16,286	702,512	627,373	58,853	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	93,270	27,710	960,500
Depreciation charge for the year	427,808	34,416	15,712	477,936	339,660	34,417	13,333	387,410
Disposals / Derecognition	(133,544)	-	-	(133,544)	(133,830)	-	-	(133,830)
As at 31 December 2022	1,224,311	127,685	43,422	1,395,418	1,045,348	127,687	41,043	1,214,078
Net Book Value								
As at 01 January 2021	1,312,385	153,317	32,680	1,498,382	1,312,385	153,318	32,680	1,498,383
As at 31 December 2021	1,482,669	118,900	21,256	1,622,825	1,211,089	118,901	21,256	1,351,245
As at 31 December 2022	1,399,560	84,484	8,416	1,492,460	1,216,414	84,484	10,794	1,311,693

- 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	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Incremental Borrowing Rate				
12%	1,306,731	1,730,845	1,299,038	1,464,489
10%	1,577,045	1,815,762	1,392,415	1,549,406

- 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 2021	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
Additions	395,015	395,015
Accretion of interest	204,959	176,577
Disposal	(40,003)	(34,050)
Payments	(623,182)	(512,850)
As at 31 December 2022	1,634,798	1,426,697

The Bank & Group had total cash outflows for leases of LKR 623.2 Mn and LKR 512.8 Mn respectively (2021 - LKR 554.7 Mn & 452.0 Mn).

Notes to the Financial Statements

18 Intangible Assets

	Bank	Group
Computer Software	LKR '000	LKR '000
Cost		
As at 01 January 2021	3,270,431	3,271,299
Additions	160,331	160,331
Capital WIP - Additions during the year	193,546	193,546
Capital WIP - Capitalized during the year	(61,915)	(61,915)
As at 31 December 2021	3,562,393	3,563,261
Additions	422,398	422,398
Capital WIP - Additions during the year	160,484	160,484
Capital WIP - Capitalized during the year	(193,546)	(193,546)
As at 31 December 2022	3,951,729	3,952,598
Amortization		
As at 01 January 2021	2,049,012	2,049,020
Charge for the year	338,913	339,037
As at 31 December 2021	2,387,925	2,388,057
Charge for the year	278,696	278,820
As at 31 December 2022	2,666,621	2,666,877
Net Book Value		
As at 01 January 2021	1,221,419	1,222,279
As at 31 December 2021	1,174,468	1,175,204
As at 31 December 2022	1,285,108	1,285,721

During the financial year, the Bank/Group acquired Intangible Assets to the aggregate value of LKR 422 Mn. (2021- LKR 160 Mn). Cash payments amounting to LKR 389 Mn (2021- LKR 292 Mn.) were made during the year for purchase of Intangible Assets.

19 Due to Banks

As at 31 December	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
Money Market Borrowing	1,823,108	1,506,401
Securities Sold under Repurchase Agreements (Repo) (Note 8.2)	-	-
Deposits from Other Banks	2,166,044	509,704
	3,989,152	2,016,105

20 Financial Liabilities at Amortised Cost

As at 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Due to Depositors (Note 20.1)	298,909,543	267,991,907	297,253,112	267,988,264
Securities sold under repurchase (repo) agreements (Note 8.2)	3,999,649	10,899,766	3,861,951	9,429,230
Due to Other Borrowers (Note 20.2)	33,740,900	35,601,356	33,532,796	35,305,349
	336,650,092	314,493,029	334,647,859	312,722,843

20.1 Analysis of amount due to depositors

20.1.1 By Product

As at 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Demand Deposits	29,508,629	33,234,764	29,499,656	33,231,121
Savings Deposits	64,490,314	73,802,033	64,490,314	73,802,033
Time Deposits	204,910,600	160,955,110	203,263,142	160,955,110
	298,909,543	267,991,907	297,253,112	267,988,264

20.1.2 By Currency

As at 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Sri Lanka Rupee	205,667,571	215,534,779	204,011,140	215,531,136
United States Dollar	82,978,166	46,138,593	82,978,166	46,138,593
Sterling Pound	3,040,431	2,196,762	3,040,431	2,196,762
Others	7,223,375	4,121,773	7,223,375	4,121,773
	298,909,543	267,991,907	297,253,112	267,988,264

Notes to the Financial Statements

20 Financial Liabilities at Amortised Cost (Contd.)

20.2 Due to Other Borrowers

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Development Finance Institutions (DFI) (Note 20.2.1)	20,994,013	21,985,394	20,994,013	21,985,394
Refinance Borrowings	5,423,779	5,798,273	5,423,779	5,798,273
Financial Institutions	5,688,310	6,119,679	5,688,310	6,119,679
Operating Lease Liability (Note 17)	1,634,798	1,698,010	1,426,694	1,402,003
	33,740,900	35,601,356	33,532,796	35,305,349

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

21 Debt Securities Issued

As at 31 December	Bank/Group	
	2022 LKR '000	2021 LKR '000
Subordinated Debt Securities Issued by the Bank		
Rated, Unsecured, Redeemable Debentures (Note 21.1)	8,182,179	8,179,685
Senior Debt Securities Issued by the Bank		
Unlisted, Rated, Unsecured, Senior, Redeemable Debentures (Note 21.1)	4,172,942	4,173,188
	12,355,121	12,352,873

21.1 Details of Debentures Issued by the Bank / Group

Debenture Categories	CSE Listing	Interest Payable Frequency	Issued Date	Maturity Date	Face Value	Market Values 2022			Interest Rates 2022		Interest rate of Comparable Government Securities		Other Ratios as at date of Last Trade	
						Highest	Lowest	Year End	Coupon Rate	Effective Annual Yield	2022	2021	Interest Yield	Yield to Maturity
For the Year Ended 31 December														
					2022	LKR '000	LKR	LKR	LKR	(%)	(%)	%	%	%
Listed Debentures														
Fixed Rate	NTB-BD-20/04/23-C2402-1265	Semi-Annually	20-Apr-18	20-Apr-23	2,213,000	2,213,000	Not traded during the current period	12.65	13.05	25.16	8.35	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	25.16	8.35	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	27.38	9.50	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	27.15	10.85	Not traded during the current period		
Unlisted Debentures														
Fixed Rate	N/A	Semi-Annually	9-Jul-21	9-Jul-26	449,760	449,760	N/A	8.90	9.10	28.20	10.65	N/A		
Fixed Rate	N/A	Annually	9-Jul-21	9-Jul-26	3,550,240	3,550,240	N/A	9.15	9.15	28.20	10.65	N/A		
Total Debt Securities Issued					12,000,000	12,000,000								
Ratios of Debt														
2022														
2021														
Debt* / Equity Ratio %											83.35			80.64
Interest Cover (Times)											4.21			3.94
Quick Asset Ratio %											136			150

* Borrowings of which original maturity with five years or more are considered for debt.

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 2022.

Notes to the Financial Statements

22 Retirement Benefit Obligations

The employee benefit liability is based on the actuarial valuation as of 31 December 2022, 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:

	2022	2021
Rate of Discount	19.00%	11.40%
Rate of Salary Increase	17.00%	10.00%
Retirement Age	60 years	60 years

22.1 Net benefit expense categorized under personnel expenses:

For the year ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest Cost	93,409	59,991	94,537	60,857
Current Service Cost	95,135	102,600	95,742	103,597
Past Service Cost	-	(4,821)	-	(4,952)
	188,544	157,769	190,279	159,502

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

	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	831,793	774,073	841,985	785,249
Interest Cost (Note 22.1)	93,409	59,991	94,537	60,857
Current Service Cost (Note 22.1)	95,135	102,600	95,742	103,597
Past Service Cost (Note 22.1)	-	(4,821)	-	(4,952)
Benefits Paid	(131,905)	(81,691)	(131,905)	(81,691)
Gratuity Payable	(18,119)	(14,009)	(18,119)	(14,009)
Actuarial (Gain)/ Loss	72,620	(4,350)	71,475	(7,066)
As at 31 December	942,933	831,793	953,715	841,985

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				Group			
2022				2021			
Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income	Salary Escalation Rate	Discount Rate	PVDBO	Effect on Other Comprehensive Income
		LKR '000	LKR '000			LKR '000	LKR '000
17.0%	20.00%	905,458	48,257	10.0%	12.40%	785,608	56,377
17.0%	18.00%	979,551	(25,836)	10.0%	10.40%	877,960	(35,975)
18.0%	19.00%	983,894	(30,179)	11.0%	11.40%	881,951	(39,966)
16.0%	19.00%	900,859	52,855	9.0%	11.40%	781,268	60,717

22.4 Average future working life time as per the assumptions made in year 2022: 6.17 years (Year 2021: 6.96 years).

22.5 Maturity profile of the defined benefit obligation as at 31 December is as follows.

Future Working Life Time	Group	
	2022	2021
	LKR '000	LKR '000
Within the next 12 months	185,492	118,668
Between 1 - 2 years	261,055	206,171
Between 2 - 5 years	239,110	187,888
Between 5 - 10 years	187,787	189,923
Beyond 10 years	80,271	139,335
	953,715	841,985

Weighted average duration of defined benefit obligation is 4.67 years (2021- 6.17 years)

23 Current Tax Liabilities

	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	2,440,631	1,293,147	2,460,712	1,319,575
Payments made / Tax credits set off	(3,841,068)	(1,696,440)	(3,911,357)	(1,745,326)
Charge for the year (Note 40.1)	5,835,761	3,208,959	5,949,406	3,260,685
(Over)/Under Provisions for the Previous Year (Note 40.1)	744,048	(365,035)	744,048	(374,222)
As at 31 December	5,179,372	2,440,631	5,242,809	2,460,712

The Bank computed the income tax liability for the first six months of the year of assessment 2022/23 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the Bank for the second six months of the year of assessment 2022/23. The deferred tax assets/liabilities of the Group as at 31 December 2022 were computed using the revised income tax rate of 30%.

Notes to the Financial Statements

24 Other Liabilities

As at 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Accounts Payable and Sundry Creditors	4,418,666	3,064,942	4,439,565	3,082,222
Obligations under Financial Guarantees (Note 24.1)	198,867	157,386	198,867	157,386
Margin Balances	891,870	1,621,272	891,870	1,621,272
Pay Orders	223,932	463,418	223,932	463,418
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)	971,836	474,810	971,836	474,810
Others	4,862,418	2,948,450	4,876,482	2,960,937
	11,640,212	8,802,901	11,675,175	8,832,668

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

	Bank/ Group	
	2022 LKR '000	2021 LKR '000
As at 01 January	157,386	124,355
Income recognised during the year	(319,371)	(397,134)
Arising during the Year	360,852	430,165
As at 31 December	198,867	157,386

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		Scheme 6 - 2022	
	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	Number of SARs	Value LKR '000
As at 01 January 2021	584,768	10,345	1,011,327	24,155	1,126,704	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 Period	-	(9,756)	-	(41,341)	-	(12,482)	-	(30,744)	-	36,361	-	-
As at 31 December 2021	551,502	-	881,781	3,833	968,542	3,791	1,174,043	24,005	1,332,724	40,994	-	-
Granted during the year	-	-	-	-	-	-	-	-	-	-	1,500,000	12,383
Exercised during the year	-	-	-	-	-	-	-	-	-	-	-	-
Expired during the year	(467,832)	-	-	-	-	-	-	-	-	-	-	-
Cancelled during the year	(83,670)	-	(196,970)	(856)	(152,210)	(596)	(211,532)	(4,325)	(213,893)	(6,580)	-	-
Forfeited during the year	-	-	(6,061)	(26)	-	-	-	-	-	-	-	-
Movement of ESAR During the Period	-	-	-	-	-	-	-	-	-	-	-	-
As at 31 December 2022	-	-	678,750	2,951	816,333	3,195	962,511	19,680	1,118,831	34,414	1,500,000	12,383

Notes to the Financial Statements

24 Other Liabilities (Contd.) 24.2 Share Based Payments (Contd.)

The value of the ESAR liability as at 31 December for each scheme is given below.

Scheme	2022		2021	
	LKR '000		LKR '000	
Scheme 1	-	-	-	-
Scheme 2	-	-	-	626
Scheme 3	-	-	-	619
Scheme 4	6,743	6,743	3,920	3,920
Scheme 5	13,199	13,199	6,695	6,695
Scheme 6	9,152	9,152	-	-

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

Cost	2022						2021					
	Scheme 2	Scheme 3	Scheme 4	Scheme 5	Scheme 6		Scheme 1	Scheme 2	Scheme 3	Scheme 4	Scheme 5	
Dividend Yield	7.39%	7.39%	7.39%	7.39%	7.39%		3.69%	3.69%	3.69%	3.69%	3.69%	
Expected Volatility	30.64%	30.64%	30.64%	30.64%	30.64%		19.60%	19.60%	19.60%	19.60%	19.60%	
Risk-Free Interest Rate	28.39%	28.39%	28.39%	28.39%	28.39%		8.24%	8.24%	8.24%	8.24%	8.24%	
Employee turnover	18.00%	18.00%	18.00%	18.00%	18.00%		15.30%	15.30%	15.30%	15.30%	15.30%	
Expected Life of the Option	0.25 Years	1.25 Years	2.25 Years	3.25 Years	4.25 Years		0.5 Years	1.25 Years	2.25 Years	3.25 Years	4.25 Years	
Weighted Average Share Price on Grant Date	78.47	89.61	72.26	54.98	48.75		79.29	78.47	89.61	72.26	54.98	
Adjusted Share Price on Grant Date	76.80	89.61	72.26	54.98	48.75		75.64	76.80	89.61	72.26	54.98	

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

Due to the conditions which prevailed in 2021 and 2022 which was resulted due to the post-pandemic impact and economic crisis, share prices were substantially affected leading to a drop in share price of more than 25% as at 31st of December 2022 when compared to the share price at the end of 2020. Further, the risk-free rate (Treasury bill rate) escalated from 8.24% in 2021 to 28.39% in 2022 which resulted an increase in ESAR provision.

With prospects of the market would regain in 2023, the Bank expect an increase in its share prices. Hence, management concluded 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 Provision (ECL) for off-balance sheet credit exposure

Bank / Group

	2022				2021			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
As at 01 January	430,982	42,256	1,572	474,810	474,639	13,096	-	487,735
Transfer to Stage 1	13,432	(13,276)	(157)	-	(2,567)	2,567	-	-
Transfer to Stage 2	(6,451)	6,451	-	-	(5,686)	5,686	-	-
Transfer to Stage 3	(2,385)	(3,627)	6,012	-	(4,941)	(204)	5,145	-
Net remeasurement of impairment	76,206	(43,918)	31,691	63,979	(4,243)	24,699	(4,451)	16,005
Net change in new exposures originated or purchased/exposures derecognised or repaid (excluding write-offs)	242,795	158,722	29,431	430,948	(26,220)	(3,588)	878	(28,930)
Effect of change in foreign currency exchange rates	2,071	28	-	2,099	-	-	-	-
As at 31 December	756,651	146,636	68,549	971,836	430,982	42,256	1,572	474,810

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

Bank / Group

	2022				2021			
	Stage 01	Stage 02	Stage 03	Total	Stage 01	Stage 02	Stage 03	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Gross Carrying amount								
As at 01 January	178,627,940	6,369,263	957,937	185,955,140	158,802,185	4,435,674	1,527,770	164,765,628
Transfer to Stage 1	1,839,134	(1,763,465)	(75,669)	-	1,901,838	(1,741,313)	(160,524)	-
Transfer to Stage 2	(7,339,840)	7,346,668	(6,828)	-	(2,014,096)	2,638,864	(624,767)	-
Transfer to Stage 3	(1,160,218)	(288,042)	1,448,260	-	(277,387)	(32,016)	309,403	-
Net change in new exposures originated or purchased/exposures derecognised or repaid (excluding write-offs)	(6,420,741)	1,850,203	146,209	(4,424,330)	20,215,401	1,068,055	(93,944)	21,189,512
As at 31 December	165,546,275	13,514,626	2,469,909	181,530,810	178,627,940	6,369,263	957,937	185,955,140

Notes to the Financial Statements

25 Deferred Taxation

Bank

	2022				2021					
	1/1/2022	Recognised in P&L (Note 40.1)	Recognised in OCI Revaluation Reserves	Recognised in OCI due to Rate Change	31/12/2022 DTL/(DTA)	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)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	DTL/(DTA)	LKR '000	LKR '000	LKR '000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	121,528	9,584	-	-	131,112	224,569	(103,041)	-	-	121,528
Accelerated depreciation allowances for tax purposes - lease rentals receivable	239,736	(144,999)	-	-	94,737	530,029	(290,293)	-	-	239,736
Net gains on re-measuring of financial assets at FVOCI	(158,970)	-	198,736	(39,743)	23	256,161	-	(378,537)	(36,594)	(158,970)
Revaluation of land & building	265,290	-	140,196	-	405,486	309,505	-	-	(44,215)	265,290
Share based payments	(17,428)	(4,359)	-	-	(21,788)	(20,334)	2,906	-	-	(17,428)
Retirement benefit plan - Gratuity	(219,885)	(61,464)	(21,786)	(5,063)	(308,198)	(241,588)	17,110	1,044	3,549	(219,885)
Impairment on Loans and Advances and Other Financial Assets	(933,279)	(3,257,263)	-	-	(4,190,542)	(152,873)	(780,406)	-	-	(933,279)
Operating Lease	(48,742)	(24,660)	-	-	(73,402)	(42,388)	(6,354)	-	-	(48,742)
Group	(751,749)	(3,483,163)	176,950	(44,806)	(3,962,570)	863,082	(1,160,078)	(377,493)	(77,260)	(751,749)
	2022				2021					
	1/1/2022	Recognised in P&L (Note 40.1)	Recognised in OCI Revaluation Reserves	Recognised in OCI due to Rate Change	31/12/2022 DTL/(DTA)	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)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	DTL/(DTA)	LKR '000	LKR '000	LKR '000
Accelerated depreciation allowances for tax purposes - property plant and equipment and intangible assets	121,704	18,397	-	-	140,101	224,776	(103,072)	-	-	121,704
Accelerated depreciation allowances for tax purposes - lease rentals receivable	239,736	(144,999)	-	-	94,737	530,029	(290,293)	-	-	239,736
Net gains on re-measuring of financial assets at FVOCI	(158,970)	-	198,736	(39,743)	23	256,161	-	(378,537)	(36,594)	(158,970)
Revaluation of land & building	410,293	-	182,744	-	593,037	478,675	-	-	(68,382)	410,293
Share based payments	(17,428)	(4,359)	-	-	(21,788)	(20,334)	2,906	-	-	(17,428)
Retirement benefit plan - Gratuity	(221,817)	(63,109)	(21,442)	(5,063)	(311,431)	(244,068)	17,147	1,451	3,653	(221,817)
Impairment on Loans and Advances and Other Financial Assets	(935,163)	(3,257,734)	-	-	(4,192,898)	(155,070)	(780,093)	-	-	(935,163)
Operating Lease	(49,102)	(24,482)	-	-	(73,584)	(42,388)	(6,714)	-	-	(49,102)
Group	(610,748)	(3,476,285)	177,294	(44,806)	(3,771,802)	1,027,778	(1,160,116)	(377,086)	(101,323)	(610,748)

Deferred tax has been determined based on the effective tax rate of 30%.

26 Stated Capital

As at 31 December	Bank /Group		Bank /Group	
	2022		2021	
	Number	LKR '000	Number	LKR '000
Ordinary Shares - Voting				
Issued and fully paid				
As at 01 January	245,134,821	6,309,792	245,134,821	6,309,792
Scrip Dividend	15,290,484	857,796	-	-
Conversion of Non Voting Shares to Voting Shares	3,509	284	-	-
As at 31 December	260,428,814	7,167,872	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	38,717,051	3,098,343
Scrip Dividend	2,332,211	135,501	-	-
Conversion of Non Voting Shares to Voting Shares	(3,509)	(284)	-	-
As at 31 December	41,045,753	3,233,560	38,717,051	3,098,343
Total Ordinary Shares/Stated Capital as at 31 December	301,474,567	10,401,432	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	
	2022	2021
	LKR '000	LKR '000
As at 01 January	1,882,111	1,561,787
Transfers during the year (Note 28)	346,361	320,324
As at 31 December	2,228,472	1,882,111

Notes to the Financial Statements

28 Retained Earnings

	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	26,911,909	21,393,697	28,072,893	22,265,430
Charge related to Surcharge Tax* (Note 28.1)	(1,803,385)	-	(1,889,179)	-
As at 01 January (Adjusted)	25,108,524	21,393,697	26,183,714	22,265,430
Total Comprehensive Income	6,881,452	6,406,240	7,183,075	6,695,491
Scrip Dividends for 2021	(993,297)	(567,704)	(993,297)	(567,704)
Fractions of shares paid in cash for 2021	(184)	-	(184)	-
Transfers to Reserve Fund (Note 27.2)	(346,361)	(320,324)	(346,361)	(320,324)
As at 31 December	30,650,134	26,911,909	32,026,947	28,072,893

28.1 Surcharge Tax

Surcharge Tax Act No. 14 of 2022 was enacted on 8th April 2022 and is applicable to the Nations Trust Bank and the Group as the collective taxable income of companies belonging to the Group, calculated in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, exceeds Rs. 2,000 million, for the year of assessment 2020/2021. The liability was computed at the rate of 25% on the taxable income of the individual Group companies, net of dividends from subsidiaries and deemed to be an expenditure in the financial statements in the year of assessment which commenced on 1st April 2020.

Total Surcharge Tax liability of LKR 1,803Mn and LKR 1,889Mn was paid by the Bank and the Group respectively during the year 2022 and the corresponding expenditure is accounted as an adjustment to the opening retained earnings on 1st January 2022 in the Statement of Changes in Equity as per the Statement of Alternative Treatment (SoAT) and the subsequent addendum issued by the Institute of Chartered Accountants of Sri Lanka.

29 Other Reserves

29.1 Other Comprehensive Income (OCI) Reserve

	Bank/ Group	
	2022 LKR '000	2021 LKR '000
As at 01 January	(503,404)	658,701
Net change in Fair value during the year	(3,550,913)	(1,621,935)
Transfer of fair value gains/(losses) o/a reclassification of debt instruments from fair value through other comprehensive income to amortised cost	3,669,876	-
Changes in Allowance for Expected Credit Losses	543,490	44,699
Income tax relating to the above	(198,736)	378,537
Deferred Tax Effect on Revision of Statutory Income Tax Rate	39,743	36,594
As at 31 December	56	(503,404)

29.2 Revaluation Reserve

	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 01 January	840,085	795,870	1,299,257	1,230,875
Revaluation Surplus during the year	246,244	-	267,238	-
Deferred Tax charge / (reversal) relating to revaluation	(73,873)	-	(80,171)	-
Deferred Tax Effect due to Revision of Statutory Income Tax Rate	(66,323)	44,215	(102,573)	68,382
As at 31 December	946,133	840,085	1,383,751	1,299,257

30 Interest Income

For the Year Ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash and Cash Equivalents	426,200	66,420	426,200	66,420
Financial Assets Recognized through Profit or Loss				
- Measured at fair value	559,401	222,681	559,401	222,681
Financial Assets at Amortised Cost				
- Loans and Advances to Customers	39,133,963	21,017,069	39,133,963	21,017,093
- Reverse Repurchase Agreements	224,740	144,683	224,740	144,683
- Debt Instruments	7,202,516	2,688,573	7,202,516	2,688,573
Financial Assets Measured at Fair Value Through Other Comprehensive Income	6,820,334	4,441,705	6,820,334	4,441,705
Interest Income Accrued on Impaired Financial Assets	(58,858)	76,103	(58,858)	76,103
	54,308,296	28,657,234	54,308,296	28,657,258

a) Net interest income from Sri Lanka government securities

	Bank/ Group	
	2022 LKR '000	2021 LKR '000
Interest income	14,503,638	7,294,798
Less: Interest expenses	-	-
Net interest income from Sri Lanka government securities	14,503,638	7,294,798

Notes to the Financial Statements

31 Interest Expense

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Due to banks	518,776	218,100	518,776	218,100
Financial liabilities at amortised cost				
- Due to customers	19,030,255	10,280,708	18,859,610	10,280,707
- Repurchase agreements	1,497,743	592,333	1,458,026	529,144
- Due to Debt Security Holders	1,399,952	1,756,164	1,399,952	1,756,164
- Due to Other Borrowers	2,591,362	1,631,609	2,591,362	1,631,609
- Interest Expense on Lease Liabilities	204,959	197,263	176,577	160,698
- Others	1,722	2,251	3,041	3,196
	25,244,769	14,678,428	25,007,344	14,579,618

32 Net Fee and Commission Income

32.1 Fees and Commission Income

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Credit Card Related Fee and Commission	3,864,051	3,128,221	3,864,051	3,128,221
Commission on Trade Finance Facilities & Remittances	1,845,488	999,094	1,845,488	999,094
Commission on Services-Loans	982,141	1,540,536	982,141	1,540,536
Commission on Services-Deposits	378,149	360,114	378,149	360,114
Other Fees	461,666	405,280	668,187	641,857
	7,531,495	6,433,245	7,738,016	6,669,822

32.2 Fees and Commission Expenses

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Brokerage Fees	(8,348)	(11,783)	(8,348)	(11,783)
Credit Card Related Fees	(881,741)	(478,373)	(881,741)	(478,373)
Other	(53,459)	(39,306)	(53,459)	(39,306)
	(943,548)	(529,462)	(943,548)	(529,463)
Net Fee and Commission Income	6,587,947	5,903,783	6,794,468	6,140,359

33 Net Gain/ (Loss) from Trading

For the Year Ended 31 December	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
Foreign Exchange		
- From Banks	12,924,398	1,352,500
- From Other Customers	1,410,503	801,021
Realised Gains/(Losses) on Financial Investments at Fair Value through Profit or Loss	142,284	(3,511)
Derivative Financial Instruments	(243,916)	322,433
	14,233,269	2,472,443

34 Net Fair Value Gains/ (Losses) from Financial Instruments at Fair Value Through Profit or Loss

For the Year Ended 31 December	Bank/ Group	
	2022	2021
	LKR '000	LKR '000
Net Gains on financial assets at fair value through profit or loss	15,848	9,103
Net Losses on financial assets at fair value through profit or loss	-	-
	15,848	9,103

35 Other Operating Income/(Loss) - Net

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Dividend Income	4,080	5,999	4,080	5,999
Gain/(Loss) on Sale of Property, Plant and Equipment	(147)	237	(147)	237
Gain/(Loss) on Revaluation of Foreign Exchange	(12,627,305)	(765,059)	(12,627,305)	(765,059)
Other Non-Trading Foreign Exchange	384,749	13,791	384,749	13,791
Recovery of Loans Written -Off	597,658	655,245	597,658	655,245
Others	135,464	159,690	135,464	159,690
	(11,505,501)	69,903	(11,505,501)	69,903

Notes to the Financial Statements

36 Impairment Charges

For the Year Ended 31 December	Note	Bank/Group	
		2022 LKR '000	2021 LKR '000
Financial Assets at Amortised Cost – Loans and Advances			
Stage 1	13.5	(226,009)	(358,476)
Stage 2	13.5	(5,134,283)	(1,058,113)
Stage 3	13.5	(4,469,573)	(1,574,206)
Financial Assets at Amortised Cost – Debt Instruments			
Stage 1	12.3	-	(710,708)
Stage 2	12.3	(2,964,251)	-
Stage 3	12.3	-	-
Financial Assets at Fair Value through Other Comprehensive Income – Debt Instruments			
Stage 1	29.1	-	(44,699)
Stage 2	29.1	(543,490)	-
Stage 3	29.1	-	-
Financial Assets at Amortised Cost– Others			
Stage 1	6.1	(20,728)	(338)
Stage 2		-	-
Stage 3	14.1	11,032	(8,543)
Contingent Liabilities & Commitments			
Stage 1	24.3	(323,598)	43,656
Stage 2	24.3	(104,352)	(29,159)
Stage 3	24.3	(66,977)	(1,572)
Total Impairment Loss		(13,842,229)	(3,742,158)

36.1 Sensitivity of Impairment Charges

Individual Impairment

If the Bank further extended the recovery cash flows by one year where the cash flow is forecasted based on collateral realisation, the cumulative impairment provision for individually significant impaired loans would have increased by Rs. 1,069 Mn (2021: Rs 364 Mn).

Collective Impairment

- If 10% of loans and advances currently in stage 2 were moved to stage 1, the ECL provision of the Bank as of 31st December 2022 would have reduced by approximately 0.6% (2021 : 0.3%). The total loans and advances in stage 2 as of 31st December 2022 amount to Rs 48,353 Mn.
- If 15% of loans and advances currently in stage 1 were moved to stage 2, the ECL provision of the Bank as of 31st December 2022 would have further increased by approximately 13.2% (2021 - 9.9%). The total loans and advances in stage 1 as of 31st December 2022 amount to Rs. 192,202 Mn.

Above upgrade and downgrade ratios were derived by stressing the stage shift ratios observed in recent years.

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

Change in Economic Factor Adjustment (EFA)	Impact on Allowance for Credit Loss	
	2022 LKR '000	2021 LKR '000
1%	39,649	13,983
5%	198,247	69,917
10%	396,495	139,835

The bank used stressed macroeconomic indicators and management overlay when calculating forward looking Economic Factor Adjustment.

37 Personnel Expenses

For the Year Ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Salaries and Bonus	4,321,159	3,425,751	4,355,066	3,452,031
Employee Benefits – Defined Contribution Plan	429,790	405,499	433,085	408,705
Employee Benefits – Defined Benefit Plan (Note 22.1)	188,544	157,769	190,279	159,502
Share Based Payments (Note 24.2)	-	-	-	-
Amortization of Staff Loan Day 1 Difference	44,117	62,834	44,117	62,834
Other Allowances	973,227	535,165	976,831	536,608
	5,956,837	4,587,018	5,999,378	4,619,680

38 Other Operating Expenses

For the Year Ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Operating Lease Expenses	116,642	93,644	116,642	93,644
Professional Fees	10,964	8,478	11,919	9,249
Auditors Fees and Expenses	9,559	9,132	10,585	10,139
Non Audit fees and Expenses to Auditors	4,584	2,568	4,584	2,568
Legal Fees	10,952	21,100	10,952	21,100
Transport	182,251	101,523	182,273	101,543
Office Administration & Establishment	4,186,139	3,076,429	4,210,432	3,095,249
	4,521,091	3,312,875	4,547,387	3,333,492

Notes to the Financial Statements

39 Taxes and Levies on Financial Services

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Value Added Tax (VAT)	2,871,223	1,984,686	2,873,218	1,985,444
Social Security Contribution Levy (SSCL)	147,848	-	147,848	-
	3,019,071	1,984,686	3,021,066	1,985,444

40 Income Tax Expense

40.1 Amount Recognized in Profit or Loss

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
The component of income tax expense for years ended 31 December 2022 and 2021 are ;				
Current Tax Expense				
Current Income Tax on Profit for the Year	5,835,761	3,208,959	5,949,407	3,260,684
Under/(Over) Provision in respect of Prior Years	744,048	(365,035)	744,048	(374,222)
	6,579,809	2,843,924	6,693,455	2,886,462
Deferred Tax Expense (Note 25)				
Due to change in temporary differences	(2,618,370)	(1,299,713)	(2,612,145)	(1,300,420)
Due to change in tax rate	(864,793)	139,635	(864,140)	140,303
	(3,483,163)	(1,160,078)	(3,476,285)	(1,160,117)
	3,096,646	1,683,846	3,217,170	1,726,345
Effective Income Tax Rate	30.89%	20.81%	30.80%	20.50%

40.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Government of Sri Lanka's tax rate for the years ended 31 December 2022 and 2021 is as follows;

For the Year Ended 31 December	Bank				Group			
	2022		2021		2022		2021	
	%	LKR '000	%	LKR '000	%	LKR '000	%	LKR '000
Profit before Income Tax	-	10,023,869	-	8,090,329	-	10,445,215	-	8,419,874
Tax effect on accounting Profit Before Tax	27.00	2,706,445	24.00	1,941,679	27.00	2,820,208	24.00	2,020,769
Add : Disallowable Expenses	41.48	4,157,444	31.22	2,525,684	39.82	4,159,642	29.67	2,498,437
Less: Allowable Expenses	(3.38)	(339,111)	(11.17)	(903,961)	(3.27)	(341,426)	(10.74)	(904,077)
Exempt Income	(6.87)	(689,017)	(4.38)	(354,444)	(6.60)	(689,017)	(4.21)	(354,444)
	58.22	5,835,760	39.66	3,208,959	56.96	5,949,407	38.73	3,260,684
Under/ (Over) Provision in respect prior years	7.42	744,048	(4.51)	(365,035)	7.12	744,048	(4.44)	(374,222)
Deferred Tax (reversal)/expense (Note 25)								
Due to change in temporary differences	(26.12)	(2,618,370)	(16.07)	(1,299,713)	(25.01)	(2,612,145)	(15.44)	(1,300,420)
Due to change in tax rate	(8.63)	(864,793)	1.73	139,635	(8.27)	(864,140)	1.67	140,303
Income Tax expense [Note 40.1]	30.89	3,096,646	20.81	1,683,846	30.80	3,217,170	20.50	1,726,345

The Group Tax expense is based on the taxable profit of each Company, since at present the tax laws do not provide for Group taxation.

41 Basic / Diluted Earnings Per Share

41.1 Earnings per Share – Basic / Diluted

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
Amount Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (LKR '000)	6,927,223	6,406,483	7,228,045	6,693,529
No of Ordinary Shares Used as the Denominator:				
Weighted Average Number of Ordinary Shares (Note 41.2)	319,623,072	319,623,072	319,623,072	319,623,072
Basic / Diluted Earnings per Share (LKR)	21.67	20.04	22.61	20.94

41.2 Weighted Average Number of Ordinary Shares

Except for the scrip dividend declared for 2022 (Note 50 – Events 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	
	2022 LKR '000	2021 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
	993,482	567,704

*Dividends for the year 2021 was paid in the form of Scrip whilst the dividends for year 2020 were paid in cash.

Notes to the Financial Statements

42.2 Declared by the Board of Directors

(Not recognized as a Liability as at 31st December)

As at 31 December	Bank/Group	
	2022 LKR '000	2021 LKR '000
Dividends on Ordinary Voting Shares:		
First and Final dividend for 2022: LKR 4.00 per share	1,041,715	-
First and Final dividend for 2021: LKR 3.50 per share	-	857,972
Dividends on Ordinary Non-Voting Shares:		
First and Final dividend for 2022: LKR 4.00 per share	164,183	-
First and Final dividend for 2021: LKR 3.50 per share	-	135,510
Total dividends declared		993,482

Proposed Dividend for the Year 2022 will be paid in the form of Scrip. Scrip Dividend conversion ratios are given in the note 4.2.3

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	
	2022 LKR '000	2021 LKR '000
Ordinary Voting Shares (Number)	16,460,766	16,028,571
Convertible Non-Voting Shares (Number)	17,636,533	16,600,000

43 Cash Flow Information

43.1 (Increase)/Decrease in Operating Assets

For the Year Ended 31 December	Bank		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Reverse Repurchase Agreements	1,500,000	2,086,600	1,500,000	2,086,600
Financial Assets at Fair Value through Profit or Loss	2,333,194	(3,941,847)	2,333,194	(3,941,847)
Financial Assets at Amortized Cost – Debt Instruments (Note 12.4)	(29,655,385)	(319,392)	(29,655,385)	(319,392)
Financial Assets at Fair Value through Other Comprehensive Income	34,928,297	4,912,088	34,928,297	4,912,088
Financial Assets at Amortized Cost – Loans & Advances	27,799,481	(41,413,929)	27,799,481	(41,413,628)
Other Assets	88,975	1,409,312	(358,528)	1,402,440
	36,994,562	(37,267,168)	36,547,059	(37,273,739)

43.2 Increase/(Decrease) in Operating Liabilities

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Repurchase Agreements	(7,016,801)	88,102	(7,016,801)	(212,285)
Financial Liabilities at Amortized Cost - Due to Depositors	(10,883,592)	28,542,503	(10,883,592)	28,548,617
Derivative Financial Instruments	322,500	-	322,500	-
Other Liabilities	649,908	1,253,133	532,848	1,255,027
	(16,927,985)	29,883,738	(17,045,045)	29,591,359

43.3 Other Non Cash Items included in Profit Before Tax

For the Year Ended 31 December	Bank		Group	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Depreciation of Property, Plant and Equipment (Note 16)	303,640	394,030	345,810	436,260
Depreciation of ROU Assets (Note 17)	477,936	483,961	387,410	393,435
Amortization of Intangible Assets (Note 18)	278,696	338,913	278,820	339,037
(Gain)/Loss on Fair Valuation of Financial Assets at Fair Value through Profit or Loss (Note 34)	(15,848)	(9,103)	(15,848)	(9,103)
Unrealized (Gain)/Loss on Derivative Financial Instruments	243,916	(318,331)	243,916	(318,331)
Interest Income/Expense on Loans and Deposits	(480,213)	422,463	(480,213)	385,898
Effect of foreign currency devaluation	13,642,604	-	13,642,604	-
Interest Income Accrued on Impaired Financial Assets	58,858	(76,103)	58,858	(76,103)
	14,509,589	1,235,830	14,461,357	1,151,093

Notes to the Financial Statements

43.4 Changes in Liabilities Arising from Financing Activities

For the Year Ended 31 December	Bank/Group			
	01 January	Cash Flows	Non - Cash Flows	31 December
	2022	2022	2022	2022
	LKR '000	LKR '000	LKR '000	LKR '000
Development Finance Institutions (DFI)	21,985,394	42,199	(1,033,580)	20,994,013
Refinance Borrowings	5,798,273	16,559	(391,053)	5,423,779
Financial Institutions	6,119,679	(1,075,000)	643,631	5,688,310
Rated, Unsecured, Redeemable Debentures	12,352,873	-	2,247	12,355,120
Total Debt Issued and Other Borrowed Funds	46,256,219	(1,016,242)	(778,755)	44,461,222
Money Market Borrowings	1,506,401	316,706	-	1,823,108
Total	47,762,620	(699,536)	(778,755)	46,284,330

For the Year Ended 31 December	Bank/Group			
	01 January	Cash Flows	Non - Cash Flows	31 December
	2021	2021	2021	2021
	LKR '000	LKR '000	LKR '000	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

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	2022	2021
	LKR '000	LKR '000
Short-term Benefits	91,412	77,311
Post employment benefit/ compensation on cessation of employment	151,646	6,683
	243,058	83,994

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 311,319 (2021 - 288,271) share appreciation rights.

(b) Transactions, Arrangements and Agreements involving Key Management Personnel

	Key Management Personnel & their Close Family Members (CFM)			
			Maximum Balances	
	2022	2021	2022	2021
	LKR '000	LKR '000	LKR '000	LKR '000
Items in the Statement of Financial Position				
Assets				
Loans & Advances	-	462	388	2,839
Credit Cards	1,384	1,479	2,880	3,619
Liabilities				
Due to Customers	160,097	232,532	339,678	243,355
Other Liabilities	1	-	-	-
Equity				
Dividends (Net)	36	21	-	-
Commitments				
Undrawn Facilities	6,555	7,296	-	-
Items in Statement of Profit or Loss				
Interest Income Earned	73	212	-	-
Interest Expenses Paid	11,713	9,861	-	-
Other Income Earned	412	273	-	-

(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 2022 (2021 - 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 429.79 Mn (2021 - LKR 333.67 Mn) to the Fund during the year.

As at 31 December 2022, the Fund has invested a sum of LKR 637Mn (2021 - LKR 409 Mn) in Financial Instruments (Repurchase agreements and Debentures) of the Bank. Also as at 31 December 2022, the fund has maintained a sum of LKR 10,358/- (2021 - LKR 10,933/-) in current/savings accounts of the bank.

During the year, the Bank has incurred a sum of LKR 68 Mn (2021 - LKR 75.13 Mn) as interest expense to the Fund out of which a sum of LKR 12.35 Mn (2021 - LKR 12.25 Mn) is payable as of 31 December 2022.

Notes to the Financial Statements

4.4 Related Party Disclosures (Contd.)

4.4.3 Transactions with Related Entities

Year Ended 31 December	Subsidiaries*						Significant Investors**						Significant Investor Related Entities***							
	2022		2021		2022		2021		2022		2021		2022		2021		2022		2021	
	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	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
	Items in the Statement of Financial Position																			
	Assets																			
Loans & Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Credit Cards	-	-	-	-	-	-	824	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative Financial Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Liabilities																			
Due to Customers	1,649,977	3,643	1,802,013	69,874	13,399,797	3,012,040	13,298,675	3,012,040	887,873	1814,103	2,028,814	1,843,819								
Repurchase & Other Borrowings	137,698	1,470,536	137,698	1,494,912	-	1,400,000	-	2,670,000	552,468	319,387	552,468	513,718								
Debtenture Issued	-	-	-	-	-	-	-	-	-	-	-	-								
Other Liabilities	-	-	-	-	661	1,351	-	-	615,886	713,695	-	713,695								
	Equity																			
Dividends (Net)	-	-	-	-	685,017	391,438	-	-	-	-	-	-								
	Commitments																			
Undrawn Facilities	-	-	-	-	1,791,421	1,985,621	-	-	4,279,272	3,588,444	-	-								
Letter of Credit / Guarantees	-	-	-	-	215,094	30,894	-	-	133,771	4,053,792	-	-								
	Items in Income Statement																			
Interest Income Earned	-	-	-	-	23,612	27,071	-	-	976,665	254,137	-	-								
Interest Expenses Paid	210,362	63,188	-	-	750,501	52,706	-	-	233,762	160,665	-	-								
Other Income Earned	7,879	7,654	-	-	6,916	2,352	-	-	854,138	312,924	-	-								
Expenses Paid	113,663	102,664	-	-	27,320	18,580	-	-	93,961	115,890	-	-								

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-employment benefit plans of related party entities and earned a fee of LKR 22.08 Mn for the year ended 31 December 2022 (2021 – LKR 2.54Mn). The maximum value of portfolio managed at any time during the year was LKR 505.25 Mn (2021 – LKR 1.725.07 Mn). 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 2022 (2021 – 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.

45 Maturity Analysis of Assets and Liabilities

As at 31 December 2022	Bank			Group		
	Within	After	Total	Within	After	Total
	12 months	12 months		12 months	12 months	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Assets						
Cash and Cash Equivalents	58,747,889	-	58,747,889	58,747,775	-	58,747,775
Balances with Central Bank of Sri Lanka	5,964,610	109,720	6,074,330	5,964,610	109,720	6,074,330
Reverse Repurchase Agreements	1,502,266	-	1,502,266	1,502,266	-	1,502,266
Derivative Financial Instruments	102,730	-	102,730	102,730	-	102,730
Financial Assets – Recognised through Profit or Loss	3,733,781	-	3,733,781	3,733,781	-	3,733,781
Financial Assets at Fair Value through Other Comprehensive Income	29,844,428	505,098	30,349,526	29,844,428	505,098	30,349,526
Financial Assets at Amortised Cost – Debt Instruments	20,622,217	39,306,077	59,928,294	20,622,217	39,306,077	59,928,294
Financial Assets at Amortised Cost – Loans and Advances	164,524,105	76,716,956	241,241,061	164,524,105	76,716,956	241,241,061
Other Assets	1,143,384	2,232,736	3,376,120	1,159,366	2,240,650	3,400,016
Investments in Subsidiaries	-	678,710	678,710	-	-	-
Property, Plant and Equipment	-	2,547,745	2,547,745	-	3,494,975	3,494,975
Right of Use (ROU) Asset	486,724	1,005,736	1,492,460	396,483	915,210	1,311,693
Deffered Tax Assets	-	3,962,570	3,962,570	-	3,771,802	3,771,802
Intangible Assets	-	1,285,108	1,285,108	-	1,285,721	1,285,721
Total Assets	286,672,134	128,350,456	415,022,590	286,597,761	128,346,209	414,943,970
Liabilities						
Due to Banks	3,989,152	-	3,989,152	3,989,152	-	3,989,152
Derivative Financial Instruments	39,481	-	39,481	39,481	-	39,481
Financial liabilities at Amortised Cost						
Due to Depositors	295,042,421	3,867,122	298,909,543	293,385,990	3,867,122	297,253,112
Repurchase Agreements	3,999,649	-	3,999,649	3,861,951	-	3,861,951
Due to Other Borrowers	16,166,902	17,573,998	33,740,900	16,075,926	17,456,870	33,532,796
Debt Securities Issued	3,860,961	8,494,160	12,355,121	3,860,961	8,494,160	12,355,121
Retirement Benefit Obligations	183,395	759,538	942,933	185,489	768,227	953,715
Current Tax Liabilities	5,179,372	-	5,179,372	5,242,809	-	5,242,809
Other Liabilities	9,621,189	2,019,023	11,640,212	9,658,710	2,016,464	11,675,176
Total Liabilities	338,082,522	32,713,841	370,796,363	336,300,469	32,602,843	368,903,312
Net	(51,410,388)	95,636,615	44,226,227	(49,702,708)	95,743,366	46,040,658

Notes to the Financial Statements

45 Maturity Analysis of Assets and Liabilities (Contd.)

As at 31 December 2021	Bank			Group		
	Within	After	Total	Within	After	Total
	12 months	12 months		12 months	12 months	
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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	88,482,794	247,441,428
Other Assets	814,634	1,198,926	2,013,560	821,271	1,225,205	2,046,476
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
Deffered 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	8,832,668
Total Liabilities	290,550,914	50,552,114	341,103,031	289,030,429	50,362,455	339,392,885
Net	(24,884,087)	63,422,924	38,538,836	(23,447,409)	63,606,403	40,158,992

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

	2022					2021				
	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	LKR '000	LKR '000
Financial Assets Measured at Fair Value										
Derivative Financial Instruments										
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-22	-	102,730	-	102,730	31-Dec-21	-	472,864	-	472,864
Financial Assets at Fair Value through Profit or Loss										
Government Treasury Bills	31-Dec-22	3,515,739	-	-	3,515,739	31-Dec-21	6,150,508	-	-	6,150,508
Government Treasury Bonds	31-Dec-22	218,042	-	-	218,042	31-Dec-21	-	-	-	-
Financial Assets at Fair Value through Other Comprehensive Income										
Debt Instruments										
Government Treasury Bills	31-Dec-22	24,819,094	-	-	24,819,094	31-Dec-21	40,595,858	-	-	40,595,858
Government Treasury Bonds	31-Dec-22	4,627,507	397,827	-	5,025,334	31-Dec-21	16,431,270	10,038,597	-	26,469,868
Sri Lanka Sovereign Bonds	31-Dec-22	478,077	-	-	478,077	31-Dec-21	438,136	-	-	438,136
Equity Instruments										
Unquoted Equity Shares	31-Dec-22	-	-	27,021	27,021	31-Dec-21	-	-	16,898	16,898
		33,658,459	500,557	27,021	34,186,037		63,615,772	10,511,461	16,898	74,144,131
Financial Liabilities Measured at Fair Value										
Derivative Financial Instruments										
Forward Foreign Exchange Contracts and Currency Swaps	31-Dec-22	-	39,481	-	39,481	31-Dec-21	-	165,699	-	165,699
		-	39,481	-	39,481		-	165,699	-	165,699

Notes to the Financial Statements

46. Fair Value of Assets and Liabilities (Contd.)

46.1 Assets and Liabilities Measured at Fair Value – Fair Value Hierarchy (Contd.)

As at 31 December

	2022						2021					
	Fair Value Measurement Using			Total	Fair Value Measurement Using			Total				
	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Date of Valuation	Quoted Prices in Active Markets (Level 1)		Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
LKR '000	LKR '000	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-22	-	-	1,749,000	31-Dec-19	-	-	1,578,900	1,578,900			
Freehold Buildings	31-Dec-22	-	-	223,488	31-Dec-19	-	-	154,730	154,730			
Total Non Financial Assets Measured at Fair Value				1,972,488				1,733,630	1,733,630			
Group												
Non Financial Assets Measured at Fair Value												
Freehold Land	31-Dec-22	-	-	1,749,000	31-Dec-19	-	-	1,578,900	1,578,900			
Freehold Buildings	31-Dec-22	-	-	1,032,938	31-Dec-19	-	-	1,045,778	1,045,778			
Total Non Financial Assets Measured at Fair Value				2,781,938				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	
	2022	2021
	LKR '000	LKR '000
As at 01 January	16,898	16,150
Investments made during the year	-	-
Change in value due to exchange rate fluctuation	10,123	748
As at 31 December	27,021	16,898

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.

46.1.2 Movements in Level 3 non-financial assets measured at fair value

Reconciliation of non-financial assets "Freehold Land and Buildings" classified as level 3 in the fair value hierarchy

Refer Note 16 for the reconciliation of the movement in freehold land buildings.

Unobservable Inputs used in Measuring Fair Value of 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 31.12.2022 LKR '000	Fair Value as at 31.12.2021 LKR '000	Fair Value as at 31.12.2022 LKR '000	Fair Value as at 31.12.2021 LKR '000			
No 76, York Street, Fort Colombo	Land	10.82 P	-	219,000	201,900	219,000	201,900	Direct Capital Comparison Method	Price per perch	LKR 22 Mn and LKR 12 Mn
	Building	8,660 (Sq.Ft.)	1	45,000	19,100	45,000	19,100		Price per Sq.Ft	LKR 3,000 - LKR 7,500
No 242, Union Place, Colombo 2	Land	772 P	-	1,530,000	1,377,000	1,530,000	1,377,000	Direct Capital Comparison Method	Price per perch	LKR 20 Mn
	Building	33,650 (Sq.Ft.)	1	178,488	135,630	178,488	135,630		Price per Sq.Ft	LKR 1,000 - LKR 6,500
46/58, Nawam Mawatha, Colombo 2	Building	61,300 (Sq.Ft.)	1	-	-	809,450	891,048	Investment method	Rent per Sq.Ft	LKR 200/- to LKR 350/-
Total				1,972,488	1,733,630	2,781,938	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.

Notes to the Financial Statements

46. Fair Value of Assets and Liabilities (Contd.)

46.2 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 and/or they are repriced 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 rates offered to customers during the fourth quarter of the reporting year. Interest rates based on treasury bond rates with similar tenure with an adjustment for premium have been used to arrive at the fair value of debentures issued and invested.

For financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

Set out below is a comparison, by class, of the carrying amounts and fair values of the 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 As at 31 December	2022					2021				
	Fair Value Measurement Using					Fair Value Measurement Using				
	Carrying amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets										
Debt Instruments at Amortised Cost	59,928,294	24,882,157	26,181,346	-	51,063,504	26,140,298	3,126,725	23,223,889	-	26,350,614
Loans and Advances to Customers	260,739,471	-	251,638,561	-	251,638,561	259,014,175	-	258,875,091	-	258,875,091
Total Financial Assets	320,667,765	24,882,157	277,819,907	-	302,702,065	285,154,473	3,126,725	282,098,980	-	285,225,705
Financial Liabilities										
Due to Customers	298,909,543	-	296,895,988	-	296,895,988	267,991,907	-	267,809,573	-	267,809,573
Due to Other Borrowers	33,740,900	-	33,439,445	-	33,439,445	35,601,356	-	36,275,429	-	36,275,429
Debt Securities Issued	12,355,121	-	9,619,305	-	9,619,305	12,352,873	-	12,402,989	-	12,402,989
Total Financial Liabilities	345,005,564	-	339,954,738	-	339,954,738	315,946,136	-	316,487,991	-	316,487,991

Notes to the Financial Statements

4.6.2 Financial Assets and Financial Liabilities not carried at fair value (Contd.)

Group	2022							2021						
	Fair Value Measurement Using							Fair Value Measurement Using						
	Carrying amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Carrying amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total				
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000				
Financial Assets														
Debt Instruments at Amortised Cost	59,928,294	24,882,457	26,181,346	-	51,063,504	26,140,298	3,126,725	23,223,889	-	26,350,614				
Loans and Advances to Customers	260,739,471	-	251,638,561	-	251,638,561	259,014,175	-	258,875,091	-	258,875,091				
Total Financial Assets	320,667,765	24,882,457	277,819,907	-	302,702,065	285,154,473	3,126,725	282,098,980	-	285,225,705				
Financial Liabilities														
Due to Customers	297,253,112	-	295,239,557	-	295,239,557	267,988,264	-	267,805,930	-	267,805,930				
Due to Other Borrowers	33,532,796	-	33,231,341	-	33,231,341	35,305,349	-	36,275,429	-	36,275,429				
Debt Securities Issued	12,355,121	-	9,619,305	-	9,619,305	12,352,873	-	12,402,989	-	12,402,989				
Total Financial Liabilities	343,141,029	-	338,090,203	-	338,090,203	315,646,486	-	316,484,348	-	316,484,348				

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, operational risk and technology risk.

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 while enhancing the risk-return profile of the Bank.

The Board of Directors is responsible for establishing the overall Risk Management Framework within the Bank. Risk Management Framework 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 appetite, 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 focuses on market risk management and liquidity risk management whilst Management 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 extreme yet plausible changes in the external/internal environment.

The risk so measured is presented to relevant board committees & senior management 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 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 Negative Externalities reported during 2022 on the business/operations and risk management of the Bank

Sri Lanka went through an unprecedented sequence of social and economic events in 2022. The positive trend which was visible in tourism towards the end of 2021 was disrupted by the Russian invasion of Ukraine. The devaluation of the Sri Lankan Rupee triggered a series of events of which created a regime of higher inflation and higher interest rates.

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While the power blackouts and shortages of essential items gave rise to widespread national protests during the Second quarter of 2022, political stability has since been restored following a change in leadership and the restoration in supply of key essential items. Sri Lanka's sovereign credit rating was downgraded to Selective Default (S&P) in the second quarter of 2022, as the government announced a temporary suspension to external debt servicing amid low foreign currency reserves. The Government is in discussions with the IMF to obtain an Extended Fund Facility, to restore macroeconomic stability and debt sustainability.

In response to these developments that took place during the year, the bank strictly adhered to the regulatory and internal risk management framework when conducting its business operations. The frequency of forward-looking risk assessments and projections was increased. Further, the Bank extended relief measures for affected businesses and individuals. The exposures which are identified with an elevated level of risk due to above mentioned developments are vigorously monitored. A provision buffer in addition to what is required as per historical loss ratios was also created during the year as a management overlay and has been charged to profit or loss in these Financial Statements. The bank used stressed macroeconomic indicator readings and evaluated the elevation of risks associated with the customers' economic sector, repayment capacity assessed at the time of loan origination and most recent repayments patterns for the quantification of management overlay.

4.7.2 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 Credit Facility (NPCF) 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. The bank rebuts some indicators of Significant Increase in Credit Risk (SICR) based on the historical behaviour of customers who were associated with those indicators. Presumptions used for rebuttal are routinely revalidated against the actual performances. LKR 103Mn is the additional impairment requirement if a nominal delay in cashflows are considered against SICR rebutted customers as above assuming that they are individually assessed.

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 the 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 Negative Externalities

During the year, the Bank enhanced its credit risk management processes to cover whether a Significant Increase in Credit Risk (SICR) has taken place for customers operating in industries affected by the negative externalities that took place during the year. As such, when assessing collective impairment, exposures outstanding from customers in industries identified by the Bank having an elevated risk were classified as stages 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.

When assessing the expected credit losses, the Bank considered the potential impact of the negative externalities based on the available information and has made provisions as management overlays to counter possible deteriorations in credit quality in future.

Credit Quality by Class of Financial Assets

The Bank manages the credit quality of Corporate, Consumer and Commercial customers through a credit rating mechanism. Customers in Consumer lending portfolio have not been rated.

Notes to the Financial Statements

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

Credit Quality Category	Definition	Description
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+ and 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	
		2022 LKR '000	2021 LKR '000
Investment Grade			
A	Less than 1%	65,948,032	72,139,316
B	Less than 1.5%	95,109,900	119,392,999
Intermediary Grade			
C + and C	Less than 2.5%	4,415,199	6,087,972
Speculative Grade			
C-	Less than 5.5%	9,454,746	8,217,280
D	Minimum of 13%	2,196,434	3,948,148
Past Due - Rated Customers			
	Less than 30 Days	10,264,056	5,897,242
	30 - 90 Days	7,673,183	4,538,732
	More than 90 Days	5,162,347	5,044,364
Past Due - Fully Secured by Cash		16,403	1,239,189
Individually Impaired - Rated Customers		43,591,785	15,554,119
Sum of Amortized Cost of Rated Customers		243,832,085	242,059,360

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 99.9% of the Group. Hence details are given only for the Bank.

Credit Quality by class of Financial Assets

Bank - 31 December 2022	Neither past due nor impaired				Customers whose credit rating is not yet finalized	Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade				
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	58,747,889	-	-	-	-	-	-	58,747,889
Balances with Central Bank of Sri Lanka	6,074,330	-	-	-	-	-	-	6,074,330
Reverse Repurchase Agreements	-	-	-	-	1,502,266	-	-	1,502,266
Derivative Financial Instruments								
Forward Foreign Exchange Contracts and Currency Swaps	59,950	-	-	-	42,780	-	-	102,730
Financial Assets - Recognised through Profit or Loss								
Government Treasury Bills and Bonds	3,733,781	-	-	-	-	-	-	3,733,781
Financial Assets at Fair Value through Other Comprehensive Income								
Government Treasury Bills and Bonds	29,844,428	-	-	-	-	-	-	29,844,428
Sri Lanka Sovereign Bonds	-	-	478,077	-	-	-	-	478,077
Unquoted Equity Shares	-	-	-	-	27,021	-	-	27,021
Financial Assets - Held to Maturity								
Government Treasury Bills and Bonds	52,900,801	-	-	-	-	-	-	52,900,801
Sri Lanka Development Bonds	-	-	1,881,807	-	-	-	-	1,881,807
Sri Lanka Sovereign Bonds	-	-	8,927,364	-	-	-	-	8,927,364
Quoted Debentures	-	514,240	-	-	255,661	-	-	769,901
Financial Assets at Amortised Cost - Loans and Advances (Gross)								
	-	161,057,931	4,415,199	11,651,180	10,526,640	29,434,630	43,653,891	260,739,471
Commitment and Contingencies	40,969,780	129,939,529	2,677,094	28,752,662	13,416,488	10,404,868	-	226,160,421
Total	192,330,959	291,511,700	18,379,541	40,403,842	25,770,856	39,839,498	43,653,891	651,890,287

Note : All loans under "Neither past due nor individually impaired" are Stage 1 assets. Past Due loans include any loan that is in arrears for more than one day. Out of Rs. 29.4Bn categorized under "past due but not individually impaired", Rs. 10.3bn (35%) is in Stage 1, Rs. 9.6Bn (33%) is in Stage 2 and Rs. 9.5Bn (32%) is in Stage 3.

Notes to the Financial Statements

Credit Quality by class of Financial Assets

Bank - 31 December 2021	Neither past due nor impaired				Customers whose credit rating is not yet finalized	Past due but not impaired	Individually impaired	Total
	High Grade	Investment Grade	Intermediary Grade	Speculative Grade				
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and Cash Equivalents	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 Rs. 20.8Bn categorized under "past due but not individually impaired", Rs. 8.0n (39%) is in Stage 1, Rs. 4.7Bn (22%) is in Stage 2 and Rs. 8.1Bn (39%) is in Stage 3.

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 Enhancements Held

Bank - 31 December 2022	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	58,747,889	10,087,206	-	-	-	-	-	-	-	-	10,087,206	48,660,683
Balances with Central Bank of Sri Lanka	6,074,330	-	-	-	-	-	-	-	-	-	-	6,074,330
Reverse Repurchase Agreements	1,502,266	-	1,691,260	-	-	-	-	-	-	(188,994)	1,502,266	-
Derivative Financial Instruments	102,730	-	-	-	-	-	-	-	-	-	-	102,730
Financial Assets - Recognised through Profit or Loss	3,733,781	-	-	-	-	-	-	-	-	-	-	3,733,781
Financial Assets at Fair Value through Other Comprehensive Income	30,349,526	-	-	-	-	-	-	-	-	-	-	30,349,526
Financial Assets at Amortised Cost	59,928,294	-	-	-	-	-	-	-	-	-	-	59,928,294
Financial Assets at Amortised Cost - Loans and Advances (Gross)	260,739,471	33,620,608	-	-	34,675,612	7,161,129	78,436,211	83,232	4,611,267	79,360,127	79,227,931	181,511,540
Financial Guarantees	568,354	-	-	-	-	-	-	-	-	-	-	568,354
Letters of Credit	4,576,561	-	-	-	-	-	-	-	527,489	-	527,489	4,049,072
Other Commitments	221,108,263	-	-	362,978	-	-	-	-	-	-	17,579,039	203,529,224
	647,431,465	43,707,814	1,691,260	362,978	34,675,612	7,161,129	78,436,211	83,232	5,138,756	79,171,133	108,923,931	538,507,534

The bank doesn't make Expected Credit Loss provisions for customers fully collateralized by cash and government securities denominated in Sri Lankan Rupees. The market values of collateralized 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 acquires the possession of collateralized 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.

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Fair value of Collateral and Credit Enhancements 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)	259,014,475	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 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	2022		2021	
	Surplus Collateral LKR '000	Net collateral LKR '000	Surplus Collateral LKR '000	Net collateral LKR '000
Stage 3 Loans & Advances	6,924,685	6,584,095	5,852,056	7,125,116
		12,930,386		7,877,973

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 secured by Residential Property, 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 negative externalities reported in 2022 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 shocks 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 high risk economic segments.

Bank - 31 December 2022	Agriculture	Ancillary Services	Banking & Finance	Construction & Real Estate	Consumer Durables & Disposables	Diversified	Food & Beverages	Health Care	Industries	Information Technology & Telecommunication	Other	Travel & Transport	Zero Risk	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	-	-	58,747,889	-	-	-	-	-	-	-	-	-	-	58,747,889
Balances with Central Bank of Sri Lanka	-	-	6,074,330	-	-	-	-	-	-	-	-	-	-	6,074,330
Reverse Repurchase Agreements	-	-	1,502,266	-	-	-	-	-	-	-	-	-	-	1,502,266
Derivative Financial Instruments														
Forward Foreign Exchange Contracts and Currency Swaps	-	-	102,730	-	-	-	-	-	-	-	-	-	-	102,730
Financial Assets - Recognised through Profit or Loss														
Government Treasury Bills and Bonds	-	-	3,733,781	-	-	-	-	-	-	-	-	-	-	3,733,781
Financial Assets of Fair Value through Other Comprehensive Income														
Government Treasury Bills and Bonds	-	-	29,844,428	-	-	-	-	-	-	-	-	-	-	29,844,428
Sri Lanka Sovereign Bonds	-	-	478,077	-	-	-	-	-	-	-	-	-	-	478,077
Unquoted Equity Shares	-	-	-	-	-	-	-	-	-	-	270,211	-	-	270,211
Financial Assets of Amortised Cost														
Government Treasury Bills and Bonds	-	-	52,900,801	-	-	-	-	-	-	-	-	-	-	52,900,801
Sri Lanka Development Bonds	-	-	1,881,807	-	-	-	-	-	-	-	-	-	-	1,881,807
Sri Lanka Sovereign Bonds	-	-	8,927,364	-	-	-	-	-	-	-	-	-	-	8,927,364
Quoted Debentures	-	-	769,901	-	-	-	-	-	-	-	-	-	-	769,901
Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,551,579)
Financial Assets of Amortised Cost - Loans and Advances	42,647,373	19,278,184	25,680,792	22,482,081	11,109,592	12,665,679	11,541,566	7,521,435	52,703,279	7,000,495	6,038,680	22,123,033	19,947,282	260,739,471
Impairment for Loans and Advances														(18,829,176)
	42,647,373	19,278,184	190,644,166	22,482,081	11,109,592	12,665,679	11,541,566	7,521,435	52,703,279	7,000,495	6,038,680	22,123,033	19,947,282	402,349,110

Notes to the Financial Statements

Bank - 31 December 2021	Agriculture	Ancillary Services	Banking & Finance	Construction & Real Estate	Consumer Durables & Disposables	Diversified	Food & Beverages	Health Care	Industries	Information Technology & Telecomm -unications	Other	Travel & Transport	Zero Risk	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	-	-	-	-	-	-	-	16,150	-	-	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 Amortised 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	14,975,154	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	371,614,089

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 78% (2021- 87%) of total advances portfolio of the Bank as at December 31, 2022. Although, Western Province is attracted with highest credit concentration, we believe that a sizable portion of these lending has been utilized 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.

	Central	Eastern	North Central	North Western	Northern Sabaragamuwa	Southern	Uva	Western	Total
Bank 31 December 2022									
Gross Loans & Advances	8,008,555	2,649,233	4,653,718	15,587,110	3,560,774	13,744,368	2,732,693	205,422,875	260,739,471
Bank 31 December 2021									
Gross Loans & Advances	5,436,083	1,676,305	3,774,083	8,142,693	2,942,088	8,703,413	1,278,682	225,040,402	259,014,175

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 unutilised 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

Liquidity risk arises from various factors including those outside the Bank's control 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 is considered as a bank being sufficiently liquid.

Liquidity risk faced by the Bank falls into two major categories, namely funding liquidity risk and market liquidity risk.

The funding liquidity is the 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 and the market liquidity is the ability to exchange financial assets in the market (interbank market) quickly without any material effect on prices/costs.

The Liquidity Risk of the bank is managed within a Board approved liquidity risk management policy and a limit framework. The two main approaches are adopted are 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 exposures and are monitored against the limit set by the Board.

The flow approach determines liquidity/net funding requirements of banks by analysing 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 analysing and responding to potential liquidity stress 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.

Further, the Bank actively manages the diversification of its deposit liabilities by source and type of deposit.

Amidst the country facing an unprecedented macroeconomic crisis, the bank continued to maintain a stable liquidity profile in both local and foreign currency balance sheets. Pro-active stress tests are being carried out to assess market stresses and any potential Regulatory directions to ensure sufficient liquidity buffers are maintained.

For the year ended 31 December	2022		2021	
	DBU	FCBU	DBU	FCBU
Liquid Asset Ratio	35.87%	25.68%	32.82%	29.67%

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% (2021 – 4%) of Sri Lankan 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.

Notes to the Financial Statements

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2022 under the flow approach;

Bank - As at 31 December 2022	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial Assets						
Cash and Cash Equivalents	55,401,653	3,390,013	-	-	-	58,791,666
Balances with Central Bank of Sri Lanka	2,241,600	1,349,269	2,373,742	109,622	97	6,074,330
Reverse Repurchase Agreements	1,511,332	-	-	-	-	1,511,332
Financial Assets - Recognised through Profit or Loss						
Government Debt Securities - Treasury Bills and Bonds	24,870	3,667,443	42,750	370,325	-	4,105,388
Financial Assets at Fair Value through Other Comprehensive Income						
Government Debt Securities - Treasury Bills and Bonds	5,368,119	15,882,678	4,788,028	8,030,203	3,131,295	37,200,323
Unquoted Equity Shares	-	-	-	-	27,021	27,021
Financial Assets at Amortised Cost						
Government Debt Securities - Treasury Bills and Bonds	2,929,258	4,483,242	14,868,206	40,367,414	26,745,426	89,393,546
Other Financial Assets	204	2,002,532	4,880,289	6,097,399	-	12,980,424
Financial Assets at Amortised Cost - Loans and Advances						
	106,886,008	52,471,010	43,614,828	80,688,844	14,179,855	297,840,545
Total Undiscounted Financial Assets	174,363,044	83,246,187	70,567,843	135,663,807	44,083,694	507,924,575
Financial Liabilities						
Due to Banks	2,168,172	1,831,916	-	-	-	4,000,088
Financial liabilities at amortised cost						
Due to Depositors	109,734,238	75,901,006	120,474,046	4,832,243	3,200	310,944,733
Repurchase Agreements	2,129,354	664,639	1,316,860	-	-	4,110,853
Due to Other Borrowers	172,716	3,233,405	13,713,706	17,311,552	4,465,303	38,896,682
Debt Securities Issued	20,179	-	4,729,396	10,636,882	-	15,386,457
Total Undiscounted Financial Liabilities	114,224,659	81,630,966	140,234,008	32,780,677	4,468,503	373,338,813
Net Undiscounted Financial Assets/ (Liabilities)	60,138,385	1,615,221	(69,666,165)	102,883,130	39,615,191	134,585,762
Gross Settled Derivatives not Held for Trading						
Financial Assets						
Contractual Amounts Receivable	16,316,099	5,938,572	-	-	-	22,254,671
Contractual Amounts Payable	(16,316,099)	(5,938,572)	-	-	-	(22,254,671)
Financial Liabilities						
Contractual Amounts Receivable	16,293,230	6,081,710	-	-	-	22,374,940
Contractual Amounts Payable	(16,293,230)	(6,081,710)	-	-	-	(22,374,940)
Total Gross Settled Derivative Assets/(Liabilities) not Held for Trading	-	-	-	-	-	-
Total Net Financial Assets/ (Liabilities)	60,138,385	1,615,221	(69,666,165)	102,883,130	39,615,191	134,585,762

Bank - As at 31 December 2021	On demand (Less than 15 days)	16 days to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
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	(2,972,009)	12,283,434	(16,315,710)	68,898,578	19,241,019	81,135,313
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

Contractual Maturity of Commitments and Guarantees

Whilst the management understands above contractual maturity gaps, more emphasis is given for the behavioural 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	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2022						
Bonds	1,790,033	5,945,106	10,247,644	1,902,244	40	19,885,066
Acceptance	692,043	957,287	93,808	-	-	1,743,137
Guarantees	568,354	-	-	-	-	568,354
Letters of Credit	877,949	3,373,215	325,397	-	-	4,576,561
Foreign Exchange Contracts	32,609,329	12,020,283	-	-	-	44,629,612
Forward Contracts to Buy/Sell Government Securities	92,757	-	-	-	-	92,757
Undrawn Commitments						
Credit Cards	48,388,614	-	-	-	-	48,388,614
Other	106,369,077	-	-	-	-	106,369,077
Total Commitments and Guarantees	191,388,156	22,295,891	10,666,849	1,902,244	40	226,253,178

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 487Mn as at end of 2022 and LKR 543Mn as at end of 2021 based on a 2.5% price premium movement on 6 month forward exchange rate as at end of each year.

Bank	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
31 December 2021						
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 Govt. 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.

47.4 Market Risk

Market Risk denotes the risk of losses in the banking book as a result of unfavourable movements in market variable such as interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices.

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 unfavourable movements and mitigate the impact on the economic income and cash flows.

All market risk parameters carries the concurrence of the Board of Directors. These limits are reviewed periodically to factor the market dynamics and the Bank's business need and all revisions are subject to Board approval. The exposures are monitored against the limits set by the Board and a report summarising the Bank's market risk exposure against approved limits is shared with the management on a daily basis.

Types of Market Risk

Both trading and non-trading activities of the Bank are exposed to unfavourable movements in the market indices which reflects in the profit and losses.

- 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 balance sheet 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 2022	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	61,466,832	-	-	-	-	-	61,466,832
Loans and Advances	241,791,532	81,962,649	84,582,305	26,394,616	28,646,558	5,628,998	14,576,407
Investments	106,302,265	12,089,914	24,263,211	18,589,416	32,136,891	19,222,834	-
Other	23,817,826	14,090,218	9,693,664	-	-	-	33,943
Total Assets	433,378,455	108,142,781	118,539,180	44,984,032	60,783,449	24,851,832	76,077,182
Liabilities							
Deposits	292,397,881	79,522,955	71,593,789	107,387,351	3,626,059	3,200	30,264,527
Borrowings	50,534,114	3,313,908	6,825,998	25,663,438	12,233,090	2,497,680	-
Other	90,446,460	15,041,159	6,470,285	-	-	-	68,935,016
Total Shareholder Funds and Liabilities	433,378,455	97,878,022	84,890,072	133,050,789	15,859,149	2,500,880	99,199,543
Total Interest Sensitivity Gap	-	10,264,759	33,649,108	(88,066,757)	44,924,300	22,350,952	(23,122,361)

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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	245,897,011	83,567,164	73,912,825	33,493,547	36,806,980	4,810,056	13,306,439
Investments	104,621,086	8,730,884	27,536,507	29,974,571	30,470,369	7,908,755	
Other	39,484,959	6,786,161	16,637,097	9,152,690	-	-	6,909,011
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 ALCO monitors the above gaps and the sensitivity on the Profit or Loss and equity for Sri Lankan 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	
		2022	2021	2022	2021
Asset/Liabilities	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
LKR	+100/-100	+116,082/-117,700	+67,062/-68,317	-388,753/+412,182	-673,088/+716,825
USD	+50/-50	+61,231/-61,718	+21,539/-21,743	-31,946/+31,973	-19,733/+20,307

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 unfavourable 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 2022. 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	Change in	Effect on Profit	Effect on Profit
	Currency Rate in %	Currency Rate in %	after tax	after tax
	2022	2021	2022	2021
			LKR '000	LKR '000
USD	+5	+5	50,011.1	18,800.8
GBP	+5	+5	(518.0)	(208.9)
EUR	+5	+5	(49.6)	22.2
AUD	+5	+5	(510.5)	(214.6)
JPY	+5	+5	(436.0)	(35.6)
Other	+5	+5	337.5	612.2

In addition to the 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	Change in	Effect on Profit	Effect on Profit
	Currency Rate in %	Currency Rate in %	after tax	after tax
	2022	2021	2022	2021
			LKR '000	LKR '000
USD	+5	+5	33,693.7	13,106.8

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 2022 (2021 - 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	
	2022 LKR '000	2021 LKR '000
Capital Commitments for Property, Plant and Equipment		
Approved and Contracted for	50,373	26,926
Approved but not Contracted for	91,348	24,919
	141,721	51,844
Capital Commitments for Intangible Assets		
Approved and Contracted for	306,441	115,012
Approved but not Contracted for	361,374	315,543
	667,815	430,555
	809,535	482,399

48.3 Lease Arrangements

48.3.1 Operating Lease Commitments – Group as Lessee

The Group has entered into commercial leases for premises and non bank motor vehicles for bank use. These leases have an average life of five to six 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	
	2022 LKR '000	2021 LKR '000
Within one year	556,898	542,129
After one year but not more than five years	1,243,017	1,532,421
More than five years	370,716	96,746
	2,170,631	2,171,296

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	
	2022 LKR '000	2021 LKR '000
Within one year	35,704	180,039
After one year but not more than five years	26,383	340,579
	62,087	520,619

49 Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS) and adopted by the Central Bank of Sri Lanka in supervising the Bank.

49.1 Capital Management

The primary objectives of the Bank's capital management policy are to ensure that the bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

Regulatory capital consists of Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year profit. The other component of regulatory capital is Tier II Capital, which includes subordinated long term debt.

49.2 Net Assets Value per Ordinary Share

	Bank		Group	
	2022	2021	2022	2021
Amount Used as the Numerator:				
Net Assets Attributable to Equity Holders of the Parent (LKR'000)	44,226,227	38,538,836	46,040,658	40,158,992
Number of Ordinary Shares Used as the Denominator:				
Number of Ordinary Shares in Issue at the End of the Year (Note 26)	301,474,567	283,851,872	301,474,567	283,851,872
Net Assets Value per Ordinary Share (LKR)	146.70	135.77	152.72	141.48

50 Events After the Reporting Date

No material events have taken place since 31 December 2022 that require disclosure or/and adjustments in these financial statements, except for the following;

a) Dividends Declared

A dividend of LKR 4.00 per share in respect of year 2022 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 16.46076 voting shares amounting to a total of 15,821,190 new voting shares and 01 share for every 17.63653 convertible non-voting shares, amounting to a total of 2,327,315 new convertible non-voting shares. Fractions in shares will be paid in cash.

b) Pursuant to the recent sovereign downgrade and the recalibration of the Sri Lankan national rating scale by Fitch Ratings Lanka Ltd., the National Long-Term ratings of 10 financial institutions in Sri Lanka have been downgraded by Fitch Ratings Lanka Ltd. on 12th January 2023.

Accordingly, the National Long-Term Rating of Nations Trust Bank PLC (NTB) has been revised to 'A-(lka)'/RWN from 'A(lka)'/RWN. Consequently, NTB's senior and subordinated debt have been revised to 'A-(lka)' and BBB(lka), respectively.

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Risk Management Annexures

Credit Risk

Table 1

Gross Loans & Advances – Individual Impairment

2022	Exposure		Impairment Provision	Impairment		Age Analysis		
	On Balance Sheet	Off Balance Sheet		Net Present Value of Future Cash Flows*	Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days
Total Loans & Advances	43,653,891	-	8,488,838	37,254,004	236,178	24,641,309	12,000,992	7,011,590

*Sum of net present value of cash flows expected through normal business activities and collateral liquidation.

Table 2

Gross Loans & Advances – Collective Impairment

2022	Exposure		Impairment Provision	Impairment		Age Analysis		
	On Balance Sheet	Off Balance Sheet		Write Offs During the period	0 - 30 Days	31 -90 Days	Above 90 Days	
Total Loans & Advances	213,575,424	-	10,340,337	1,829,927	189,455,460	14,379,714	9,740,250	

* Staff Loans exposures are not assessed for impairment.

Risk Management Annexures

Market Risk

Table 1

Composition of Trading and Non-Trading Book

	2022		
	Trading book (LKR million)	Non-trading book (LKR million)	Total (LKR million)
Assets			
Cash and Cash Equivalents	-	58,748	58,748
Balances with Central Bank of Sri Lanka	-	6,074	6,074
Reverse Repurchase Agreements	-	1,502	1,502
Derivative Financial Instruments	103	-	103
Financial Assets	3,734	30,350	34,084
Other Financial Assets	-	-	-
Financial Assets at Amortised Cost – Debt Instruments	-	59,928	59,928
Financial Assets at Amortised Cost – Loans and Advances	-	241,241	241,241
Other Assets	-	3,376	3,376
Investments in Subsidiaries	-	679	679
Fixed Assets (PPE, ROU & Intangibles)	-	9,288	9,288
Total	3,837	411,186	415,023
Liabilities			
Due to Banks	-	3,989	3,989
Derivative Financial Instruments	39	-	39
Due to Depositors	-	298,910	298,910
Repurchase Agreements	-	4,000	4,000
Due to other Borrowers	-	33,741	33,741
Debt Securities Issued	-	12,355	12,355
Retirement benefit obligations	-	944	944
Tax Liabilities (Current & Deferred)	-	5,179	5,179
Other Liabilities	-	11,640	11,640
Equity & Other Reserves	-	44,226	44,226
Total	39	414,984	415,023
Contingent Liabilities & Commitments			
Commitment & Guarantees	-	181,623	181,623
Forward on Government Securities	-	-	-
Derivative Assets- Held for Trading (Net)	44,630	-	44,630

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)	177.138	26.394	19.318	.947	18.875	1.272	(0.351)	3.920
	Liabilities (On & Off Balance sheet)	61.710	36.258	19.592	32.061	23.842	6.246	59.964	
	Periodic Gap	115.428	(9.864)	(0.274)	(31.114)	(4.967)	(4.974)	(60.315)	
GBP	Assets (On & Off Balance sheet)	6.743	0.003	0.004	0.012	0.011	-	0.024	(0.032)
	Liabilities (On & Off Balance sheet)	0.396	0.505	0.444	1.207	0.415	0.158	3.704	
	Periodic Gap	6.347	(0.502)	(0.440)	(1.195)	(0.404)	(0.158)	(3.680)	
EUR	Assets (On & Off Balance sheet)	6.557	3.003	0.003	0.053	0.006	-	0.144	(0.004)
	Liabilities (On & Off Balance sheet)	0.805	1.669	0.522	1.087	1.550	0.583	3.553	
	Periodic Gap	5.752	1.334	(0.519)	(1.034)	(1.544)	(0.583)	(3.409)	
AUD	Assets (On & Off Balance sheet)	14.391	0.001	(0.036)	0.001	0.001	-	-	(0.061)
	Liabilities (On & Off Balance sheet)	1.405	0.566	1.357	2.278	0.798	0.298	7.717	
	Periodic Gap	12.986	(0.565)	(1.393)	(2.277)	(0.797)	(0.298)	(7.717)	
JPY	Assets (On & Off Balance sheet)	9.349	-	(1.283)	5.701	-	-	17.265	(4.548)
	Liabilities (On & Off Balance sheet)	30.509	0.352	0.167	0.192	1.555	0.598	2.207	
	Periodic Gap	(21.160)	(0.352)	(1.450)	5.509	(1.555)	(0.598)	15.058	

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)	63,633	42,673	27,016	25,837	67,732	31,193	52,733
	Liabilities (On & Off Balance sheet)	62,982	35,493	27,183	23,632	17,843	22,882	143,073
	Periodic Gap	651	7,180	(167)	2,205	49,889	8,311	(90,340)
	Cumulative GAP	651	7,831	7,664	9,869	59,758	68,069	(22,271)
USD	Assets (On & Off Balance sheet)	174	37	26	5	55	8	(1)
	Liabilities (On & Off Balance sheet)	66	43	25	42	47	12	47
	Periodic Gap	108	(6)	1	(37)	8	(4)	(46)
	Cumulative GAP	108	102	103	66	74	70	24
GBP	Assets (On & Off Balance sheet)	7	-	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	-	1	-	1	-	-	8
	Periodic Gap	7	(1)	-	(1)	-	-	(8)
	Cumulative GAP	7	6	6	5	5	5	(3)
EUR	Assets (On & Off Balance sheet)	7	3	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	1	2	1	1	2	1	5
	Periodic Gap	6	1	(1)	(1)	(2)	(1)	(5)
	Cumulative GAP	6	7	6	5	3	2	(3)
AUD	Assets (On & Off Balance sheet)	14	-	-	-	-	-	-
	Liabilities (On & Off Balance sheet)	1	1	1	2	1	-	3
	Periodic Gap	13	(1)	(1)	(2)	(1)	-	(3)
	Cumulative GAP	13	12	11	9	8	8	5
JPY	Assets (On & Off Balance sheet)	12	-	(1)	6	-	-	17
	Liabilities (On & Off Balance sheet)	31	1	-	-	2	1	65
	Periodic Gap	(19)	(1)	(1)	6	(2)	(1)	(48)
	Cumulative GAP	(19)	(20)	(21)	(15)	(17)	(18)	(66)

Interest Rate Risk

Table 1

Interest Rate Sensitive 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	111,459	49,818	17,700	19,076	38,926	15,391	24,809	277,179
	Liabilities	77,902	41,290	44,046	41,868	8,348	7,491	2,501	223,446
	Periodic Gap	33,557	8,528	(26,346)	(22,792)	30,578	7,900	22,308	53,733
USD	Assets	79	82	19	1	13	-	-	194
	Liabilities	102	51	74	43	-	-	-	270
	Periodic Gap	(23)	31	(55)	(42)	13	-	-	(76)
GBP	Assets	3	-	-	-	-	-	-	3
	Liabilities	2	1	1	3	-	-	-	7
	Periodic Gap	1	(1)	(1)	(3)	-	-	-	(4)
EUR	Assets	3	3	-	-	-	-	-	6
	Liabilities	5	2	1	2	-	-	-	10
	Periodic Gap	(2)	1	(1)	(2)	-	-	-	(4)
AUD	Assets	1	-	-	-	-	-	-	1
	Liabilities	5	1	3	5	-	-	-	14
	Periodic Gap	(4)	(1)	(3)	(5)	-	-	-	(13)
JPY	Assets	4	-	-	-	-	-	-	4
	Liabilities	35	1	-	-	-	-	-	36
	Periodic Gap	(31)	(1)	-	-	-	-	-	(32)

Table 2

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

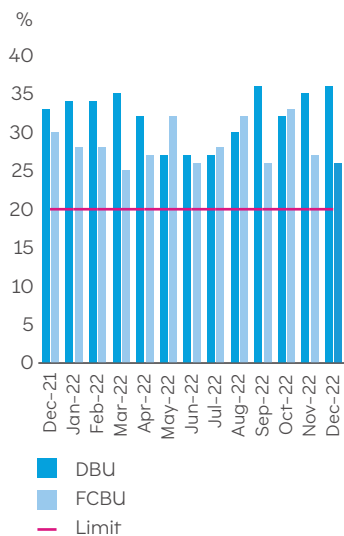
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Up by 200bp	(5)	(58)	274	452	(1,021)	(374)	(1,538)	(2,270)
Down by 200bp	5	58	(274)	(452)	1,021	374	1,538	2,270

Note : Interest sensitivity is on 200bps increase/decrease, excluding trading book

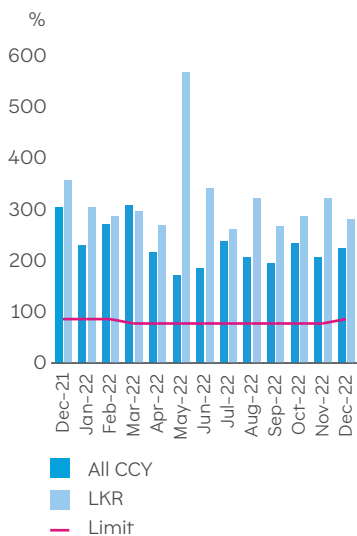
Risk Management Annexures

Liquidity Risk Trend Analysis

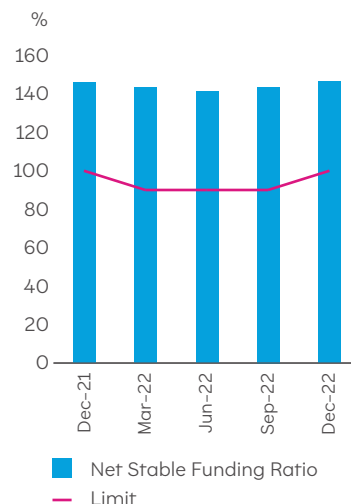
Statutory Liquidity Ratio



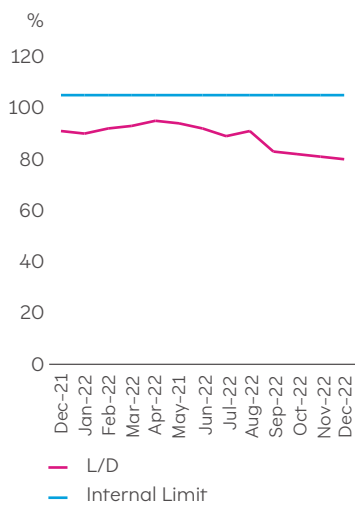
Liquidity Coverage Ratio



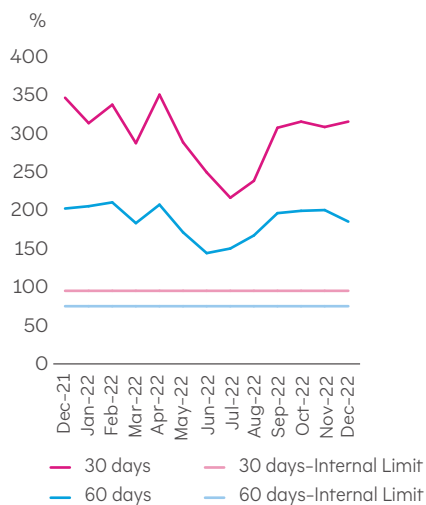
Net Stable Funding Ratio



Loan to Deposit Ratio



Liquid Assets to Short term Liabilities Ratio



Net loans to Total Assets Ratio

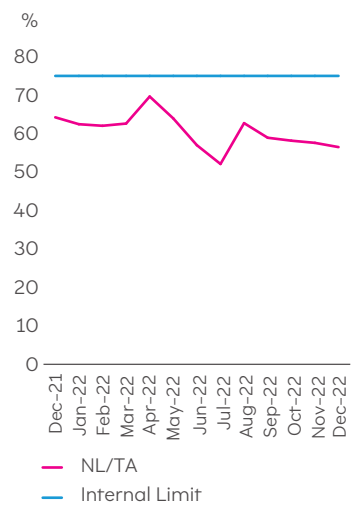


Table 1
Key Regulatory Ratios – Capital and Liquidity

Item	Bank		Group	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
Regulatory Capital (LKR '000)				
Common Equity Tier 1	38,032,394	35,772,533	39,599,360	37,073,777
Tier 1 Capital	38,032,394	35,772,533	39,599,360	37,073,777
Total Capital	43,662,516	42,291,642	45,229,482	43,592,886
Regulatory Capital Ratios (%)				
Common Equity Tier 1 Capital Ratio (Minimum Requirement – 7.00%)	14.21%	14.77%	14.76%	15.31%
Tier 1 Capital Ratio (Minimum Requirement – 8.50%)	14.21%	14.77%	14.76%	15.31%
Total Capital Ratio (Minimum Requirement – 12.50%)	16.31%	17.46%	16.86%	18.01%
Leverage Ratio (Minimum Requirement – 3%)	8.94%	9.03%	9.30%	9.36%
Regulatory Liquidity				
Statutory Liquid Assets				
Domestic Banking Unit (LKR'000)	123,358,706	104,283,917		
Off-Shore Banking Unit (LKR'000)	12,562,531	9,897,774		
Statutory Liquid Assets Ratio % (Minimum Requirement – 20%)				
Domestic Banking Unit (%)	35.87%	32.82%		
Off-Shore Banking Unit (%)	25.68%	29.67%		
Consolidated (%)	35.55%	31.48%		
Total Stock of High-Quality Liquid Assets (LKR'000)	80,523,205	84,587,028		
Liquidity Coverage Ratio (%)				
Rupee				
(Minimum Requirement – 90% – 31-Dec-2022)				
(Minimum Requirement – 100% – 31-Dec-2021)	279.63%	355.54%		
All Currency				
(Minimum Requirement – 90% – 31-Dec-2022)				
(Minimum Requirement – 100% – 31-Dec-2021)	222.88%	304.28%		
Net Stable Funding Ratio				
(Minimum Requirement – 90% – 31-Dec-2022)				
(Minimum Requirement – 100% – 31-Dec-2021)	146.23%	146.06%		

Risk Management Annexures

Table 2

Basel III Computation of Capital Ratios

Item	Bank		Group	
	LKR '000		LKR '000	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
Common Equity Tier 1 (CET1) Capital after Adjustments	38,032,394	35,772,533	39,599,360	37,073,777
Common Equity Tier 1 (CET1) Capital	43,280,072	37,698,750	44,656,885	38,859,736
Equity Capital (Stated Capital)/Assigned Capital	10,401,432	9,408,135	10,401,432	9,408,135
Reserve Fund	2,228,472	1,882,111	2,228,472	1,882,111
Published Retained Earnings/(Accumulated Retained Losses)	30,650,134	26,911,908	32,026,947	28,072,895
Published Accumulated Other Comprehensive Income (OCI)	34	(503,404)	34	(503,404)
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	5,247,678	1,926,216	5,057,523	1,785,960
Goodwill (net)	-	-	-	-
Intangible Assets (net)	1,285,108	1,174,469	1,285,721	1,175,210
Deferred tax assets (net)	3,962,570	751,747	3,771,802	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	5,630,122	6,519,109	5,630,122	6,519,109
Tier 2 Capital	5,630,122	6,519,109	5,630,122	6,519,109
Qualifying Tier 2 Capital Instruments	2,341,905	3,839,048	2,341,905	3,839,048
Revaluation Gains	397,935	397,935	397,935	397,935
Loan Loss Provisions	2,890,282	2,282,127	2,890,282	2,282,127
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	38,032,394	35,772,533	39,599,360	37,073,777
Total Tier 1 Capital	38,032,394	35,772,533	39,599,360	37,073,777
Total Capital	43,662,516	42,291,642	45,229,482	43,592,886

Table 2 (Contd.)

Basel III Computation of Capital Ratios (Contd.)

Item	Bank		Group	
	LKR '000		LKR '000	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
Total Risk Weighted Assets (RWA)	267,688,735	242,186,964	268,207,619	242,091,477
RWAs for Credit Risk	231,222,567	208,896,129	231,295,373	208,370,608
RWAs for Market Risk	3,337,695	5,532,774	3,337,695	5,532,774
RWAs for Operational Risk	33,128,473	27,758,061	33,574,551	28,188,094
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	14.21%	14.77%	14.76%	15.31%
of which: Capital Conservation Buffer (%)	2.500%	2.000%	2.500%	2.000%
of which: Countercyclical Buffer (%)	-	-	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-	-	-
Total Tier 1 Capital Ratio (%)	14.21%	14.77%	14.76%	15.31%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	16.31%	17.46%	16.86%	18.01%
of which: Capital Conservation Buffer (%)	2.500%	2.000%	2.500%	2.000%
of which: Countercyclical Buffer (%)				
of which: Capital Surcharge on D-SIBs (%)				

Table 3

Basel III Computation of Leverage Ratio

Item	Bank		Group	
	LKR '000		LKR '000	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
Tier 1 Capital	38,032,394	35,772,533	39,599,360	37,073,777
Total Exposures	425,622,313	395,980,939	425,733,851	396,030,297
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	408,172,184	374,406,347	408,283,722	374,455,706
Derivative Exposures	624,097	476,286	624,097	476,286
Securities Financing Transaction Exposures	1,500,000	3,000,000	1,500,000	3,000,000
Other Off-Balance Sheet Exposures	15,326,032	18,098,305	15,326,032	18,098,305
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	8.94%	9.03%	9.30%	9.36%

Risk Management Annexures

Table 4
Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
	LKR '000		LKR '000	
	31-Dec-22		31-Dec-21	
Total Stock of High-Quality Liquid Assets (HQLA)	80,523,205	80,523,205	84,587,028	84,587,028
Total Adjusted Level 1A Assets	80,518,342	80,518,342	84,618,512	84,618,512
Level 1 Assets	80,523,205	80,523,205	84,587,028	84,587,028
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	485,249,411	71,710,175	463,654,421	55,410,732
Deposits	232,689,574	23,268,957	221,614,356	22,161,436
Unsecured Wholesale Funding	69,708,802	29,769,990	48,880,487	19,594,174
Secured Funding Transactions	34,997	-	613,381	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	176,604,770	12,459,960	189,931,908	11,040,833
Additional Requirements	6,211,268	6,211,268	2,614,289	2,614,289
Total Cash Inflows	115,985,432	35,582,181	59,402,130	27,611,639
Maturing Secured Lending Transactions Backed by Collateral	1,511,332	-	3,003,837	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	64,625,465	33,282,564	52,280,040	27,505,067
Operational Deposits	45,307,864	-	3,931,175	-
Other Cash Inflows	4,540,771	2,299,617	187,080	106,572
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/ Total Net Cash Outflows over the Next 30 Calendar Days) * 100		223%		304%

Table 5
Basel III Computation of Net Stable Funding Ratio

Item	Bank	
	Amount (LKR'000)	
	31-Dec-22	31-Dec-21
Total Available Stable Funding	300,703,131	285,905,828
Required Stable Funding – On Balance Sheet Assets	199,880,785	189,605,436
Required Stable Funding – Off Balance Sheet Items	5,761,837	6,138,738
Total Required Stable Funding	205,642,622	195,744,174
Net Stable Funding Ratio		
(Minimum Requirement – 90% – 31-Dec-2022)		
(Minimum Requirement – 100% – 31-Dec-2021)	146.23%	146.06%

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)	Subordinated Debt (Debentures)
Issuer	Nations Trust Bank PLC	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	NTB-BD- 20/04/23-C2401-13
Governing Law(s) of the Instrument	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
Original Date of Issuance	3-May-99	20-Feb-18	20-Apr-18	20-Apr-18
Par Value of Instrument	22.12	80	100	100
Perpetual or Dated	Perpetual	Perpetual	Dated	Dated
Original Maturity Date, if Applicable	N/A	N/A	20-Apr-23	20-Apr-23
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	7,167,864	3,233,568	147,533	85,800
Accounting Classification (Equity/Liability)	Equity	Equity	Liability	Liability
Issuer Call subject to Prior Supervisory Approval	-	-	-	-
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A	N/A	N/A	N/A
Subsequent Call Dates, if Applicable	N/A	N/A	N/A	N/A
Coupons/Dividends				
Fixed or Floating Dividend/Coupon	Discretionary dividend amount	Discretionary dividend amount	Fixed	Fixed
Coupon Rate and any Related Index	Distributable profit that has been declared as dividend	Distributable profit that has been declared as dividend	12.65%	13.00%
Non-Cumulative or Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or Non-Convertible	Non-Convertible	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	As per Banking Act Direction No. 1 of 2016
If Convertible, Fully or Partially	Non-Convertible	Fully or Partially	Fully or Partially	Fully or Partially
If Convertible, Mandatory or Optional	Non-Convertible	Optional	Mandatory	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.	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)	Senior Debt (Debentures)	Senior Debt (Debentures)
Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC	Nations Trust Bank PLC
NTB-BD-23/12/24 - C2441 - 12.8	NTB-BD-23/12/26 - C2442 - 12.9	N/A	N/A
Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949	Companies Act, No.7 of 2007 Monetary Law Act No. 58 of 1949
23-Dec-19	23-Dec-19	9-Jul-21	9-Jul-21
100	100	100	100
Dated	Dated	Dated	Dated
23-Dec-24	23-Dec-26	9-Jul-26	9-Jul-26
1,080,000	1,028,571	N/A	N/A
Liability	Liability	Liability	Liability
-	-		
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A
Fixed	Fixed	Fixed	Fixed
12.80%	12.90%	8.90%	9.15%
Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible	Convertible	Non-Convertible	Non-Convertible
As per Banking Act Direction No. 1 of 2016	As per Banking Act Direction No. 1 of 2016	N/A	N/A
Fully or Partially	Fully or Partially	N/A	N/A
Mandatory	Mandatory	N/A	N/A
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.	N/A	N/A

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-2022					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount ⁱⁱ	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	65,232,924	11,078,300	65,232,924	221,566	1,251,558	2%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%
Claims on Public Sector Entities	2,739,330	-	2,739,330	-	547,866	20%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%
Claims on Banks Exposures	48,861,064	1,759,829	48,861,064	76,276	19,580,140	40%
Claims on Financial Institutions	5,677,580	17,584,743	5,677,580	214,389	3,885,050	66%
Claims on Corporates	105,928,401	88,585,698	105,928,401	10,397,566	113,384,654	97%
Retail Claims	86,089,527	74,922,660	86,089,527	3,765,607	67,407,367	75%
Claims Secured by Residential Property	7,367,531	-	7,367,531	-	3,623,883	49%
Claims Secured by Commercial Real Estate	367,122	-	367,122	-	367,122	100%
Non-Performing Assets (NPAs)(i)	10,268,250	-	10,268,250	906,552	13,596,192	122%
Higher-risk Categories	25,803	-	25,803	-	64,507	250%
Cash Items and Other Assets	17,601,433	-	17,601,433	-	7,514,228	43%
Total	350,158,965	193,931,230	350,158,965	15,581,956	231,222,567	63%

Asset Class	Group					
	LKR'000 as at -31-Dec-2022					
	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On-Balance Sheet Amount ⁱⁱ	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)
Claims on Central Government and CBSL	65,232,924	11,078,300	65,232,924	221,566	1,251,558	2%
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	0%
Claims on Public Sector Entities	2,739,330	-	2,739,330	-	547,866	20%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	0%
Claims on Banks Exposures	48,861,064	1,759,829	48,861,064	76,276	19,580,140	40%
Claims on Financial Institutions	5,677,580	17,584,743	5,677,580	214,389	3,885,050	66%
Claims on Corporates	105,928,401	88,585,698	105,928,401	10,397,566	113,384,654	97%
Retail Claims	86,089,527	74,922,660	86,089,527	3,765,607	67,407,367	75%
Claims Secured by Residential Property	7,367,531	-	7,367,531	-	3,623,883	49%
Claims Secured by Commercial Real Estate	367,122	-	367,122	-	367,122	100%
Non-Performing Assets (NPAs)(i)	10,268,250	-	10,268,250	906,552	13,596,192	122%
Higher-risk Categories	-	-	-	-	-	0%
Cash Items and Other Assets	18,241,906	-	18,241,906	-	8,154,678	45%
Total	350,773,635	193,931,230	350,773,635	15,581,956	231,798,510	63%

Note:

(i) RWA Density – Total RWA/Exposures post CCF and CRM.

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 ^a	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)	
32,285,722	5,000,000	32,285,722	100,000	1,160,025	4%	
-	-	-	-	-	0%	
638,938	-	638,938	-	127,788	20%	
-	-	-	-	-	0%	
5,306,366	25,828,736	5,306,366	522,159	2,086,454	36%	
8,634,546	31,763,191	8,634,546	884,733	6,948,361	73%	
90,733,881	75,857,866	90,733,881	13,994,432	101,750,979	97%	
98,894,073	82,251,093	98,894,073	3,187,303	78,455,813	77%	
7,653,249	-	7,653,249	-	5,343,156	70%	
1,855,333	-	1,855,333	25,037	1,880,370	100%	
5,318,106	-	5,318,106	-	6,021,822	113%	
25,803	-	25,803	-	64,507	250%	
15,624,055	-	15,624,055	-	4,929,067	32%	
266,970,072	220,700,887	266,970,072	18,713,664	208,896,129	73%	

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 ^a	Off-Balance Sheet Amount	On-Balance Sheet Amount	Off-Balance Sheet Amount	RWA	RWA Density(ii)	
32,285,722	5,000,000	32,285,722	100,000	1,160,025	4%	
-	-	-	-	-	0%	
638,938	-	638,938	-	127,788	20%	
-	-	-	-	-	0%	
5,306,423	25,828,736	5,306,423	522,159	2,086,466	36%	
8,634,546	31,763,191	8,634,546	884,733	6,948,361	73%	
90,722,712	75,857,866	90,722,712	13,994,432	101,739,810	97%	
98,894,073	82,251,093	98,894,073	3,187,303	78,583,600	77%	
7,653,249	-	7,653,249	-	5,343,156	70%	
1,855,333	-	1,855,333	25,037	1,880,370	100%	
5,318,106	-	5,318,106	-	6,021,822	113%	
-	-	-	-	-	0%	
15,174,221	-	15,174,221	-	4,479,211	30%	
266,483,325	220,700,887	266,483,325	18,713,664	208,370,608	73%	

Risk Management Annexures

Table 8

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

Description	Bank										
	LKR'000 as at 31-December-2022 (Post CCF & CRM)										
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	59,196,698		6,257,792		-	-	-	-	-	-	65,454,490
Claims on Foreign Sovereigns and their Central Banks	-		-		-	-	-	-	-	-	-
Claims on Public Sector Entities	-		2,739,330		-	-	-	-	-	-	2,739,330
Claims on Official Entities and Multilateral Development Banks	-		-		-	-	-	-	-	-	-
Claims on Banks Exposures	-		16,864,385		31,731,382	-	-	341,572	-	-	48,937,340
Claims on Financial Institutions	-		40,120		3,949,645	-	-	1,902,204	-	-	5,891,969
Claims on Corporates	-		2,421,507		2,008,214	-	-	111,896,246	-	-	116,325,967
Retail Claims	24,519		-		-	7,081,990	78,361,810	4,386,816	-	-	89,855,135
Claims Secured by Residential Property	-		-	5,759,459	-	-	-	1,608,072	-	-	7,367,531
Claims Secured by Commercial Real Estate	-		-	-	-	-	-	367,122	-	-	367,122
Non-Performing Assets (NPAs)	-		-		279,972	-	-	5,772,080	5,122,751	-	11,174,803
Higher-risk Categories	-		-		-	-	-	-	-	25,803	25,803
Cash Items and Other Assets	10,087,206		-		-	-	-	7,514,228	-	-	17,601,433
Total	69,308,423	-	28,323,134	5,759,459	37,969,213	7,081,990	78,361,810	133,788,340	5,122,751	25,803	365,740,923

Description	Group										
	LKR'000 as at 31-December-2022 (Post CCF & CRM)										
	0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	59,196,698		6,257,792		-	-	-	-	-	-	65,454,490
Claims on Foreign Sovereigns and their Central Banks	-		-		-	-	-	-	-	-	-
Claims on Public Sector Entities	-		2,739,330		-	-	-	-	-	-	2,739,330
Claims on Official Entities and Multilateral Development Banks	-		-		-	-	-	-	-	-	-
Claims on Banks Exposures	-		16,864,385		31,731,382	-	-	341,572	-	-	48,937,340
Claims on Financial Institutions	-		40,120		3,949,645	-	-	1,902,204	-	-	5,891,969
Claims on Corporates	-		2,421,507		2,008,214	-	-	111,896,246	-	-	116,325,967
Retail Claims	24,519		-		-	7,081,990	78,361,810	4,386,816	-	-	89,855,135
Claims Secured by Residential Property	-		-	5,759,459	-	-	-	1,608,072	-	-	7,367,531
Claims Secured by Commercial Real Estate	-		-	-	-	-	-	367,122	-	-	367,122
Non-Performing Assets (NPAs)	-		-		279,972	-	-	5,772,080	5,122,751	-	11,174,803
Higher-risk Categories	-		-		-	-	-	-	-	-	-
Cash Items and Other Assets	10,087,229		-		-	-	-	7,651,539	-	-	17,738,768
Total	69,308,446	-	28,323,134	5,759,459	37,969,213	7,081,990	78,361,810	133,925,651	5,122,751	-	365,852,455

Bank											
LKR'000 as at 31-Dec-2021 (Post CCF & CRM)											
0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount	
20,785,469	11,600,254	-	-	-	-	-	-	-	-	32,385,722	
-	-	-	-	-	-	-	-	-	-	-	
-	638,938	-	-	-	-	-	-	-	-	638,938	
-	-	-	-	-	-	-	-	-	-	-	
-	2,850,775	2,922,901	-	-	54,849	-	-	-	-	5,828,525	
-	241,546	4,755,362	-	-	4,522,370	-	-	-	-	9,519,279	
-	2,999,774	1,155,030	-	-	100,573,509	-	-	-	-	104,728,313	
73,305	201,326	-	2,704,212	88,726,905	10,375,629	-	-	-	-	102,081,377	
-	-	3,553,990	-	-	-	4,099,259	-	-	-	7,653,249	
-	-	-	-	-	-	1,880,370	-	-	-	1,880,370	
-	-	-	166,993	-	-	3,576,688	1,574,426	-	-	5,318,106	
-	-	-	-	-	-	-	-	-	25,803	25,803	
9,343,191	1,689,745	-	-	-	-	4,591,118	-	-	-	15,624,055	
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	

Group											
LKR'000 as at 31-Dec-2021 (Post CCF & CRM)											
0%	10%	20%	35%	50%	60%	75%	100%	150%	>150%	Total Credit Exposures Amount	
20,785,469	11,600,254	-	-	-	-	-	-	-	-	32,385,722	
-	-	-	-	-	-	-	-	-	-	-	
-	638,938	-	-	-	-	-	-	-	-	638,938	
-	-	-	-	-	-	-	-	-	-	-	
-	2,850,833	2,922,901	-	-	54,849	-	-	-	-	5,828,582	
-	241,546	4,755,362	-	-	4,522,370	-	-	-	-	9,519,279	
-	2,999,774	1,155,030	-	-	100,562,340	-	-	-	-	104,717,144	
73,305	201,326	-	2,704,212	88,726,905	10,375,629	-	-	-	-	102,081,377	
-	-	3,553,990	-	-	-	4,099,259	-	-	-	7,653,249	
-	-	-	-	-	-	1,880,370	-	-	-	1,880,370	
-	-	-	166,993	-	-	3,576,688	1,574,426	-	-	5,318,106	
-	-	-	-	-	-	-	-	-	-	-	
9,343,214	1,689,745	-	-	-	-	4,141,262	-	-	-	15,174,221	
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	

Risk Management Annexures

Table 9
Market Risk under Standardised Measurement Method

Item	Bank		Group	
	RWA (LKR'000)		RWA (LKR'000)	
	31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
(a) RWA for Interest Rate Risk	236,994	602,420	236,994	602,420
General Interest Rate Risk	236,994	602,420	236,994	602,420
(i) Net Long or Short Position	236,994	602,420	236,994	602,420
(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	180,217	61,513	180,217	61,513
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	3,337,695	5,532,774	3,337,695	5,532,774

Table 10
Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardise Approach

Business Lines	Bank									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2022			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2021		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		21,094,930	23,333,112	38,393,141	15%		22,191,304	21,094,930	23,333,112
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	4,141,059					3,330,967				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	33,128,473					27,758,061				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

Table 10 (Contd.)

Operational Risk under Basic Indicator Approach/ The Standardised Approach/ The Alternative Standardise Approach (Contd.)

Business Lines	Group									
	Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2022			Capital Charge Factor	Fixed Factor	Gross Income (LKR'000) as at 31-Dec-2021		
			1st Year	2nd Year	3rd Year			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		21,430,771	23,668,521	38,837,086	15%		22,552,135	21,430,771	23,668,521
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	4,196,819					3,382,571				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				
Risk Weighted Amount for Operational Risk (LKR'000)										
The Basic Indicator Approach	33,574,551					28,188,094				
The Standardised Approach	-					-				
The Alternative Standardised Approach	-					-				

GRI Context Index

Statement of use	Nations Trust Bank PLC has reported in accordance with the GRI Standards for the period from 1st of January 2022 to 31st December 2022				
GRI 1 used	GRI 1: Foundation 2021				
GRI Standard	Disclosure	Location (page)	Omission		
			Requirement(S) Omitted	Reason	Explanation
General disclosures					
GRI 2: General Disclosures 2021	2-1 Organizational details	IBC			
	2-2 Entities included in the organization's sustainability reporting	3			
	2-3 Reporting period, frequency and contact point	3			
	2-4 Restatements of information	3			
	2-5 External assurance	3			
	2-6 Activities, value chain and other business relationships	3,50-51			
	2-7 Employees	41			
	2-8 Workers who are not employees			Not applicable	The Bank does not have workers who are not employees
	2-9 Governance structure and composition	52-53			
	2-10 Nomination and selection of the highest governance body	80			
	2-11 Chair of the highest governance body	14			
	2-12 Role of the highest governance body in overseeing the management of impacts	80			
	2-13 Delegation of responsibility for managing impacts		2-13	Information unavailable/incomplete	While the Board makes formal inquiries regarding this topic regularly, no sustainable development goals have been articulated by the Board at present. The Board is in the process of putting in place a Board led ESG agenda that complies with Direction #5 of 2022 issued by CBSL in this regard in 2023 in line with the recommended frameworks.
	2-14 Role of the highest governance body in sustainability reporting	3			
	2-15 Conflicts of interest	58, 83			
	2-16 Communication of critical concerns	62			
	2-17 Collective knowledge of the highest governance body	4, 53			
	2-18 Evaluation of the performance of the highest governance body	54			
	2-19 Remuneration policies	81			
2-20 Process to determine remuneration	81				
2-21 Annual total compensation ratio		2-21	Confidentiality constraints	Given the current socioeconomic stress, this requirement is not complied with.	

GRI Standard	Disclosure	Location (page)	Omission		
			Requirement(S) Omitted	Reason	Explanation
	2-22 Statement on sustainable development strategy		2-22	Information unavailable/incomplete	The Board plans to have a Sustainable Development strategy in place by end 2023.
	2-23 Policy commitments		2-23	Information unavailable/incomplete	
	2-24 Embedding policy commitments		2-23	Information unavailable/incomplete	
	2-25 Processes to remediate negative impacts	47, 48- 49	2-25 b 2-25 d 2-25 e	Information unavailable/incomplete	
	2-26 Mechanisms for seeking advice and raising concerns	45			
	2-27 Compliance with laws and regulations	59			
	2-28 Membership associations	46			
	2-29 Approach to stakeholder engagement	25			
	2-30 Collective bargaining agreements		2-30	Not applicable	The Bank does not have collective bargaining agreements in place
Material topics					
GRI 3: Material Topics 2021	3-1 Process to determine material topics		21		
	3-2 List of material topics		216		
Economic performance					
GRI 3: Material Topics 2021	3-3 Management of material topics		21		
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed		6		
	201-2 Financial implications and other risks and opportunities due to climate change		202-2	Not applicable	Not relevant to banking sector
	201-3 Defined benefit plan obligations and other retirement plans		155		
	201-4 Financial assistance received from government		201-4	Not applicable	The Bank did not receive financial assistance from the government.
Indirect economic impacts					
GRI 3: Material Topics 2021	3-3 Management of material topics		45		
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported		47		
	203-2 Significant indirect economic impacts		47		
Anti-corruption					
GRI 3: Material Topics 2021	3-3 Management of material topics		55		
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption		44		
	205-2 Communication and training about anti-corruption policies and procedures		44		
	205-3 Confirmed incidents of corruption and actions taken		44		

GRI Context Index

GRI Standard	Disclosure	Location (page)	Omission		
			Requirement(S) Omitted	Reason	Explanation
Anti-competitive behavior					
GRI 3: Material Topics 2021	3-3 Management of material topics		3-3	Not applicable	There were no legal actions for anti-competitive behavior, anti-trust, and monopoly practices during the year
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		3-3	Not applicable	
Tax					
GRI 3: Material Topics 2021	3-3 Management of material topics	34			
GRI 207: Tax 2019	207-1 Approach to tax	155-156			
	207-2 Tax governance, control, and risk management	155-156			
	207-3 Stakeholder engagement and management of concerns related to tax	155-156			
	207-4 Country-by-country reporting	155-156			
Materials					
GRI 3: Material Topics 2021	3-3 Management of material topics	48			
GRI 301: Materials 2016	301-1 Materials used by weight or volume	49			
	301-2 Recycled input materials used		301-2	Not applicable	The Bank does not have a significant volume of input material
	301-3 Reclaimed products and their packaging materials		301-3	Not applicable	Not relevant to the Bank's operations
Energy					
GRI 3: Material Topics 2021	3-3 Management of material topics	48			
GRI 302: Energy 2016	302-1 Energy consumption within the organization	49			
	302-2 Energy consumption outside of the organization		302-2	Not applicable	Not significant in the Bank's operations
	302-3 Energy intensity	48			
	302-4 Reduction of energy consumption		302-4	Information unavailable/incomplete	Bank is currently not tracking this information
	302-5 Reductions in energy requirements of products and services		302-5	Not applicable	Not relevant to the Bank's operations
Water and effluents					
GRI 3: Material Topics 2021	3-3 Management of material topics	48			
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	49			
	303-2 Management of water discharge-related impacts		303-2	Not applicable	Not significant in the Bank's operations
	303-3 Water withdrawal		303-3	Not applicable	Not significant in the Bank's operations
	303-4 Water discharge		303-4	Not applicable	Not significant in the Bank's operations
	303-5 Water consumption	49			

GRI Standard	Disclosure	Location (page)	Omission		
			Requirement(S) Omitted	Reason	Explanation
Emissions					
GRI 3: Material Topics 2021	3-3 Management of material topics	48			
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	48			
	305-2 Energy indirect (Scope 2) GHG emissions	48			
	305-3 Other indirect (Scope 3) GHG emissions	48			
	305-4 GHG emissions intensity	48			
	305-5 Reduction of GHG emissions			Information unavailable/incomplete	
	305-6 Emissions of ozone-depleting substances (ODS)			Information unavailable/incomplete	The Bank does not track this information at present
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions			Information unavailable/incomplete	
Waste					
GRI 3: Material Topics 2021	3-3 Management of material topics	48			
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	49			
	306-2 Management of significant waste-related impacts	49			
	306-3 Waste generated	49			
	306-4 Waste diverted from disposal			Information unavailable/incomplete	The Bank does not track this information at present
	306-5 Waste directed to disposal			Information unavailable/incomplete	
Employment					
GRI 3: Material Topics 2021	3-3 Management of material topics	41			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	42	401-1 b	Information unavailable/incomplete	The Bank does not track this information at present
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	44	401-2	Not applicable	The Bank does not track this information at present
	401-3 Parental leave		401-3	Information unavailable/incomplete	The Bank does not track this information at present

GRI Context Index

GRI Standard	Disclosure	Location (page)	Omission		
			Requirement(S) Omitted	Reason	Explanation
Occupational health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	42			
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system		403-1	Not applicable	Not significant in the Bank's operations
	403-2 Hazard identification, risk assessment, and incident investigation		403-2	Not applicable	Not significant in the Bank's operations
	403-3 Occupational health services		403-3	Not applicable	Not significant in the Bank's operations
	403-4 Worker participation, consultation, and communication on occupational health and safety		403-4	Not applicable	Not significant in the Bank's operations
	403-5 Worker training on occupational health and safety	44			
	403-6 Promotion of worker health		403-6	Not applicable	Not significant in the Bank's operations
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		403-7	Not applicable	Not significant in the Bank's operations
	403-8 Workers covered by an occupational health and safety management system	41			
	403-9 Work-related injuries	41			
	403-10 Work-related ill health	41			
Training and education					
GRI 3: Material Topics 2021	3-3 Management of material topics	41			
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	44			
	404-2 Programs for upgrading employee skills and transition assistance programs	44			
	404-3 Percentage of employees receiving regular performance and career development reviews	44			
Diversity and equal opportunity					
GRI 3: Material Topics 2021	3-3 Management of material topics	44			
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	42			
	405-2 Ratio of basic salary and remuneration of women to men	44			
Local communities					
GRI 3: Material Topics 2021	3-3 Management of material topics	216			
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	47			

GRI Standard	Disclosure	Location (page)	Omission		
			Requirement(S) Omitted	Reason	Explanation
	413-2 Operations with significant actual and potential negative impacts on local communities		413-2	Not applicable	The Bank has not identified any operations with significant negative impact on the local communities
Marketing and labeling					
GRI 3: Material Topics 2021	3-3 Management of material topics	45			
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	4			
	417-2 Incidents of non-compliance concerning product and service information and labeling	45			
	417-3 Incidents of non-compliance concerning marketing communications	45			
Customer privacy					
GRI 3: Material Topics 2021	3-3 Management of material topics	38			
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	38			

Material Topics Annexures

Material topic and why it is material to us	Topic boundary and change in boundary	Corresponding GRI topics
<p>1. Resilient Growth</p> <p>Proactively adapting strategy in response to the unprecedented challenges posed by the operating environment to deliver sustainable value to shareholders while maintaining strength and stability within the financial services industry.</p>	<p>The Group's financial performance will directly impact its primary stakeholders such as shareholders, employees, and customers. The topic will cover the Bank's impact on both external and internal stakeholders.</p>	<p>201: Economic Performance</p> <p>207: Tax</p>
<p>2. Customer experience</p> <p>Elevating the customer experience through convenience, accessibility, and technology to be a key competitive advantage is a strategic priority for the Bank.</p>	<p>While the impacts of the material topic arise primarily from customers it will have a long-term impact on the Bank's commercial sustainability.</p>	
<p>3. Digitisation</p> <p>Digital transformation is a core strategy for the Bank supporting scalability, enhanced customer experiences, process efficiencies and connectivity.</p>	<p>The impacts of digitisation are both internal and external as it directly affects our internal efficiencies, cost management and customer experience.</p>	
<p>4. Talent Retention & Attraction</p> <p>Recruiting and retaining the employees with the right skills, attitudes and work ethic has become critical due to the high rates of skilled professional migration experienced in 2022.</p>	<p>Human capital management relates primarily to our direct employees across the island and is internal</p>	<p>401: Employment</p> <p>405: Diversity and equal opportunity</p>
<p>5. Corporate Governance and compliance</p> <p>Sustainable value creation is underpinned by robust governance frameworks and practices.</p>	<p>Non-compliance to regulations and laws as well as weak corporate governance practices could result in potential legal liability and significantly affect the Bank's reputation and continuity of operations.</p>	<p>417: Marketing and Labeling</p>
<p>6. Operational efficiency</p> <p>Achieving process efficiencies and increased productivity has a direct impact on the Bank's profitability while freeing up employee time for customer interaction.</p>	<p>Directly impacts the Group's financial performance</p>	

Material topic and why it is material to us	Topic boundary and change in boundary	Corresponding GRI topics
<p>7. Training and development</p> <p>With the Bank's digital transformation, it is imperative that we continue to upskill our employees and equip them with the right tools to drive our strategic ambitions.</p>	Relates to the Bank's direct employees.	404: Training and education
<p>8. Managing our impacts</p> <p>As a responsible corporate citizen, we strive to create value to the communities we operate in through meaningful, ongoing CSR projects while minimising the adverse environmental impacts of our operations</p>	<p>Relates to the communities within which the Bank operates in and its internal environment.</p> <p>The Group's internal environmental impacts consist of paper, energy & water consumption and the carbon footprint it generates. The Bank's most significant external environmental impact arises from its lending portfolio.</p>	<p>203: Indirect economic impacts</p> <p>301: Materials</p> <p>302: Energy</p> <p>303: Water and effluents</p> <p>305: Emissions</p> <p>306: Effluents and waste</p> <p>413: Local communities</p>
<p>9. Cybersecurity</p> <p>Given increasing digitisation, strengthening cyber security is of strategic importance to the Bank to ensure the prevention of data breaches, protect customer trust and preserve our reputation.</p>	The reporting boundary is internal as it relates to threats to the Bank's digital infrastructure	
<p>10. Customer Privacy</p> <p>In tandem with providing innovative digital solutions to customers, the Bank is committed to establishing robust safeguards to protect the privacy of sensitive personal information of customers, thereby protecting customer trust.</p>	The reporting boundary is internal as it relates to threats relating to the Bank's digital infrastructure which is the medium used to store and protect the customer information	418: Customer privacy
<p>11. Operational Risks</p> <p>The Bank's robust risk management framework enables identification, assessment and addressing of operational risks thereby protecting the Bank from financial losses and loss of reputation.</p>	This boundary is internal although it can involve impacts on external parties as the risks are wide ranging	<p>205: Anti-corruption</p> <p>206: Anti-competitive behavior</p>
<p>12. Health and safety</p> <p>Health and safety of employees, customers, and other stakeholders continued to be of critical importance during the year.</p>	The Reporting boundary is internal as it relates to the health and safety of those within our premises which will typically include employees, outsourced workers and customers in our premises	403: Occupational health and safety

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 2022, and the Statement of Financial Position as at that date will be submitted to the Colombo Stock Exchange within two months of the reporting date.

DISTRIBUTION OF ORDINARY SHAREHOLDERS – VOTING

As at December 31, 2022	Resident			Non - Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1000	3,759	1,084,496	0.43	27	9,912	0.00	3,786	1,094,408	0.43
1001 - 10,000	2,144	6,002,155	2.30	32	103,989	0.04	2,176	6,106,144	2.34
10,001 - 100,000	428	10,992,491	4.22	9	270,127	0.10	437	11,262,618	4.32
100,001 - 1,000,000	47	11,759,369	4.52	7	2,500,874	0.96	54	14,260,243	5.48
Over 1,000,000	16	187,170,364	71.87	2	40,535,037	15.56	18	227,705,401	87.43
	6,394	217,008,875	83.34	77	43,419,939	16.66	6,471	260,428,814	100.00

DISTRIBUTION OF ORDINARY SHAREHOLDERS – NON VOTING

As at December 31, 2022	Resident			Non - Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1000	269	50,064	0.12	-	-	-	269	50,064	0.12
1001 - 10,000	39	96,535	0.24	-	-	-	39	96,535	0.24
10,001 - 100,000	7	119,122	0.29	-	-	-	7	119,122	0.29
100,001 - 1,000,000	1	148,492	0.36	-	-	-	1	148,492	0.36
Over 1,000,000	5	34,473,172	83.99	1	6,158,368	15.00	6	40,631,540	98.99
	321	34,887,385	85.00	1	6,158,368	15.00	322	41,045,753	100.00

ANALYSIS OF SHAREHOLDERS – VOTING

	31 December 2022			31 December 2021		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	6,143	28,319,564	10.87	6,340	27,618,329	11.27
Institutional	328	232,109,250	89.13	350	217,516,492	88.73
	6,471	260,428,814	100.00	6,690	245,134,821	100.00

ANALYSIS OF SHAREHOLDERS – NON VOTING

	31 December 2022			31 December 2021		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	290	345,972	0.84	282	328,960	0.85
Institutional	32	40,699,781	99.16	34	38,388,091	99.15
	322	41,045,753	100.00	316	38,717,051	100.00

FLOAT ADJUSTED MARKET CAPITALISATION

	31.12.2022		31.12.2021	
	Number	%	Number	%
Number of shareholders representing the public holding (Voting)	6,471	35.78	6,677	35.78
Number of shareholders representing the public holding (Non Voting)	17	1.00	307	1.01
Float Adjusted Market Capitalization	Rs. 4.33 Bn		Rs. 4.85 Bn	
Compliant under	Option 3		Option 3	

MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

	Voting		Non-Voting	
	2022	2021	2022	2021
Market value				
Highest Value (LKR)	60.00	68.50	75.00	89.00
Lowest Value (LKR)	30.50	52.90	44.60	50.10
Value at end of year (LKR)	46.20	55.00	57.40	65.10
Trading Statistics				
No. of Transactions	5,466	13,688	222	336
No. of shares Traded (Mn)	6.57	18.53	0.02	0.05
Value of shares Traded (LKR Mn)	299.72	1,075.45	0.98	2.92
Market Capitalization				
Market Capitalization (LKR Mn)	12,031.81	14,323.58	2,356.03	2,520.48

Investor Information

TWENTY LARGEST VOTING SHAREHOLDERS AS AT 31ST DECEMBER 2022

Name of the Shareholder	2022		2021	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	51,363,384	19.72	48,347,078	19.72
HWIC Asia Fund	39,064,322	15.00	36,770,223	15.00
Central Finance Company PLC A/C No 03	25,630,053	9.84	24,124,933	9.84
Mackinnons Keells Limited	25,424,873	9.76	23,931,802	9.76
Janashakthi Insurance PLC - Shareholders	25,250,730	9.70	23,767,885	9.70
CF Insurance Brokers (Pvt) Ltd	12,910,418	4.96	12,152,256	4.96
CF Growth Fund Ltd A/C No.01	12,822,902	4.92	12,069,880	4.92
Sri Lanka Insurance Corporation Ltd - Life Fund	10,185,667	3.91	9,587,516	3.91
Sri Lanka Insurance Corporation Ltd - General Fund	6,061,235	2.33	5,705,290	2.33
Hatton National Bank PLC A/C No 1	4,124,460	1.58	3,882,252	1.58
Mr. M.F. Hashim	2,734,971	1.05	2,645,548	1.08
National Savings Bank	2,427,452	0.93	2,284,901	0.93
Mr. P Brahmanage	2,285,271	0.88	2,152,839	0.88
J.B. Cocoshell (Pvt) Ltd	2,236,024	0.86	1,994,353	0.81
Mr. N.R. Somaiya	1,470,715	0.56	1,384,348	0.56
Timex Garments (Pvt) Ltd	1,273,931	0.49	1,199,120	0.49
Mrs. H.K.S.R Perera	1,239,744	0.48	1,153,763	0.47
Deutsche Bank AG As Trustee To Assetline Income Plus Growth Fund	1,199,249	0.46	1,128,824	0.46
Mr.M.A.Jafferjee	887,230	0.34	-	-
Askold (Pvt) Ltd	831,295	0.32	782,478	0.32
	229,423,926	88.09	215,065,289	87.73
Other Shareholders	31,004,888	11.91	30,069,532	11.97
Total	260,428,814	100.00	245,134,821	100.00

*Shareholding as at 31 December 2021 of the top twenty shareholders as at 31 December 2022.

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 2022 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 the CBSL.

TWENTY LARGEST NON VOTING SHAREHOLDERS AS AT 31 DECEMBER 2022

Name of the Shareholder	2022		2021	
	No. of Shares	%	No. of Shares	%
John Keells Holdings PLC	16,964,690	41.33	16,000,788	38.98
Central Finance Company PLC A/C No 03	8,611,027	20.98	8,121,765	19.79
HWIC Asia Fund	6,158,368	15.00	5,808,515	14.15
Mackinnons Keells Limited	4,421,906	10.77	4,170,662	10.16
CF Insurance Brokers (Pvt) Ltd	2,245,385	5.47	2,117,807	5.16
CF Growth Fund Ltd A/C No.01	2,230,164	5.43	2,103,451	5.12
Mr. M. G. H. I. Jafferjee	148,492	0.36	140,055	0.34
The Incorporated Trustees of the Church of Ceylon	26,631	0.06	25,118	0.06
Mr. K.N.J.Balendra	20,858	0.05	19,673	0.05
Mr. S. J . Hirdaramani	19,367	0.05	18,267	0.04
Mr. D. C . Fernando	16,478	0.04	15,542	0.04
Vinik (Pvt) Ltd	13,556	0.03	12,786	0.03
People's Leasing & Finance PLC/Mr. A.B.K. Weeraman	11,135	0.03	10,503	0.03
Mr. J. B . Hirdaramani	11,097	0.03	10,467	0.03
Mrs. E.M. Dias Bandaranaike	8,803	0.02	8,303	0.02
Mr. K.O.V.S.M.S.Wijesinghe	7,678	0.02	7,242	0.02
Miss. T.T. Weerasinghe	6,777	0.02	6,392	0.02
Mr. H.P. Savindu	5,322	0.01	5,020	0.01
Mr. K.S.N. Hirdaramani	4,437	0.01	4,185	0.01
Miss. R.S. Wickremeratne	4,424	0.01	4,173	0.01
	40,936,595	99.72	38,610,714	94.07
Others	109,158	0.28	106,337	0.28
Total	41,045,753	100.00	38,717,051	100.00

*Shareholding as at 31 December 2021 of the top twenty shareholders as at 31 December 2022.

DEBENTURE INFORMATION

The rated unsecured subordinated redeemable debentures 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.

Corporate Governance Annexure

The Banking Act Direction No.11 of 2007 (as amended) on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka.

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
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, strategic objectives and corporate values have been communicated to the staff via intranet, regular training and strategy communication sessions. Strategic Plan inclusive 2023 –2025 was also approved by the Board in December 2022.	✓
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). Chairpersons of the said Board sub Committees too update on the proceedings of those committees at regular Board meetings.	✓
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. Accordingly, the Board has designated all the members in the corporate management team as KMP.	✓
3 (1) (i) (g)	Defining the areas of authority and key responsibilities for Directors 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.	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (i) (h)	<p>Oversight of the affairs of the Bank KMP</p> <p>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. Chairperson of the BSC also updates the Board on the proceedings of BSC at regular Board meetings.</p> <p>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.</p> <p>KMP responsible for internal controls and compliance attend every IRMC meeting. Board has delegated the function of overseeing IAD to BARC.</p> <p>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. Chairpersons of IRMC and BARC update the Board on the proceeding of the said committees.</p>	✓
3 (1) (i) (i)	<p>Assess the effectiveness of own governance practices, including selection, nomination and election of directors and key management personnel, management of conflicts of interests.</p> <p>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.</p>	✓
3 (1) (i) (j)	<p>Succession plan for KMP</p> <p>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. Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date. Succession Plan for KMP has been approved by the Board.</p>	✓
3 (1) (i) (k)	<p>Regular meetings with KMP</p> <p>Refer comment on 3 (1) (i) (h) above</p>	✓
3 (1) (i) (l)	<p>Regulatory environment and maintaining an effective relationship with regulators.</p> <p>The Company Secretary is statutorily responsible for communications with the Registrar of Companies. This is included in the JD of the Company Secretary.</p> <p>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.</p> <p>The Board is updated of the changes in the regulatory environment by the relevant KMP at the Board subcommittee and Board levels which discusses/endorsees the steps taken to comply which such changes as appropriate.</p> <p>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 report is submitted to the IRMC by the Compliance Officer capturing interactions with the Regulators and the actions taken/to be taken on new regulations.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (i) (m)	<p>Exercising due diligence in hiring and oversight of external auditors</p> <p>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.</p>	✓
3 (1) (ii)	<p>Appointment of Chairman and CEO and defining and approving their functions and responsibilities</p> <p>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.</p>	✓
	Board procedure	
3 (1)(iii)	<p>Board Meetings</p> <p>Board met 13 times in the year on a monthly basis which includes two meetings held in the month of December. The Directors actively participate at such meetings. Any concern or comment by such directors requiring action is minuted.</p> <p>Approval of the Board by circular resolutions has been kept to a minimum and resorted to only where necessary.</p>	✓
3 (1) (iv)	<p>Arrangements for Directors to include proposals in the agenda</p> <p>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.</p>	✓
3(1) (v)	<p>Notice of meetings</p> <p>The Board Procedure provides that the schedule of dates of meetings for the year is approved by the Board and such approved schedule is notified to every Director thereby giving more than 7 days notice.</p> <p>Any change of the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting.</p> <p>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.</p>	✓
3 (1) (vi)	<p>Directors' attendance</p> <p>Details of the Directors attendance is set out on Page 54 of the Annual Report, 2022. 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.</p>	✓
3(1)(vii)	<p>Appointment and setting responsibilities of the Company Secretary</p> <p>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.</p>	✓
3(1) (viii)	<p>Directors' access to advice and services of the company secretary</p> <p>All Directors have access to the advice and services of the Company Secretary. Board Procedure contains required provisions as specified in this Rule.</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (ix)	<p>Maintenance of Board minutes</p> <p>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.</p>	✓
3(1)(x)	<p>Maintaining minutes with sufficient details to serve as reference for regulatory and supervisory authorities</p> <p>Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings.</p> <p>The minutes of the meeting include;</p> <ul style="list-style-type: none"> • 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. <p>Every paper submitted to the Board seeking approval of the Board contains recommendations from the management and also discloses a reasonable basis for making such recommendations.</p> <p>Minutes will refer to the paper which contains the data and opinions relied on by the Board and also contain any other matter considered by the Board outside what is contained in the paper (if any). Minutes are to be read with the relevant board paper. Reference of the paper considered is included in the minute. Board procedure also provides for the contents of the Board minutes.</p>	✓
3 (1) (xi)	<p>Directors' ability to seek independent professional advise.</p> <p>Board procedure includes a provision to enable the Directors to seek independent professional advice at the Bank's expense.</p>	✓
3(1)(xii)	<p>Dealing with conflicts of interest</p> <p>Board procedure specifically addresses avoidance of conflicts of interest.</p> <p>Board has made a determination as to what should be considered as material and such matters have been dealt by the Board as required by the Rule. Directors abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest. Board minutes provide evidence of compliance.</p>	✓
3(1)(xiii)	<p>Formal schedule of matters specifically reserved to it for Board's decision.</p> <p>There is a schedule of matters reserved for Board approval which has been approved by the Board.</p>	✓
3 (1) (xiv)	<p>Inform Central Bank if there are solvency issues prior to taking any decision or action.</p> <p>No situation has arisen to challenge Bank's solvency. Board is furnished with sufficient information on a regular basis to enable the Board to act in the required manner if such a situation arises.</p> <p>Board has also approved and put in place a robust ALCO mechanism that would keep the liquidity position under control.</p> <p>IRMC discusses in detail the Key Risk Goals at each IRMC meeting and the minutes of the IRMC are submitted to the Board.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (1) (xv)	<p>Capital Adequacy</p> <p>The Bank is in compliance with regulatory and prudential requirements relating to capital adequacy. Capital Adequacy Ratios are submitted to the Board quarterly. IRMC also monitors this on a monthly basis through Key Risk Goals.</p>	✓
3 (1) (xvi)	<p>Publish Corporate Governance Report in this Annual Report</p> <p>Report is published in page 52 of the Annual Report of 2022.</p>	✓
3 (1) (xvii)	<p>Self-assessment of Directors</p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise, annually. The responses are collated and reviewed by the Senior Director and discussed at the Board meeting.</p> <p>The records of these assessments are maintained with the Company Secretary.</p>	✓
3 (2)	Board's composition	
3(2)(i)	<p>Number of Directors</p> <p>As per the CBSL Corporate Governance Direction, the number of directors on the Board shall not be less than 7 and not more than 13. The Bank's Board composition was in compliance with this requirement throughout the year.</p>	✓
3(2)(ii)	<p>Period of service of a Director</p> <p>The period of service of a Director is limited to 9 years excluding the Executive Director. No Director of the Bank served for a period exceeding Nine years during the year.</p>	✓
3(2)(iii)	<p>Appointment of Executive Directors</p> <p>The Board consists of only one executive director and hence the number of Executive Directors did not exceed one third of the number of Directors on the Board at any given time during the year.</p>	✓
3(2)(iv)	<p>Independent Directors</p> <p>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.</p> <p>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.</p>	✓
3 (2) (v)	<p>Alternate Directors</p> <p>No alternate director has been appointed during the year.</p>	✓
3(2)(vi)	<p>Criteria for Non executive directors</p> <p>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 15 to 17 of the Annual Report, 2022.</p> <p>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.</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3(2)(vii)	<p>Quorum for the Board meeting is more than 50% of Directors and more than half the quorum to comprise non executive Directors</p> <p>All meetings of the Board held during the year have been attended by a majority of Non Executive Directors.</p>	✓
3 (2) (viii)	<p>Identify Independent non-executive directors in communications and disclose categories of Directors in Annual Report.</p> <p>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 15 to 17 of the Annual Report, 2022.</p>	✓
3 (2) (ix)	<p>Formal and transparent procedure for appointments to the Board.</p> <p>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.</p>	✓
3 (2) (x)	<p>Election of Directors to fill a casual vacancy</p> <p>Notice and Agenda for the AGM to be held in 2023 includes a proposal to seek shareholders' approval to elect Directors, Mr. Sanjeev Jha and Mr. Hemantha Gunetilleke who were appointed to the Board after the AGM held in 2022.</p>	✓
3(2)(xi)	<p>Communication of reason for removal or resignation of Director</p> <p>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.</p>	✓
3(2)(xii)	<p>Prohibition of Directors or employees of a bank becoming a Director of another Bank</p> <p>Based on the quarterly declarations submitted by individual directors in the year 2022, no director is a Director of another Bank.</p> <p>Letter of appointment of employees includes a clause which stipulates that an employee shall not have any dealing with any other financial institution.</p>	✓
3(3)	Criteria to assess the fitness and propriety of directors	
3(3) (i)	<p>Age of directors should not exceed 70 years</p> <p>There are no directors on the Board of the Bank who are over 70 years of age.</p>	✓
3(3)(ii)	<p>Directors should not hold directorships of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank.</p> <p>No director of the Bank holds Directorships in more than 20 companies.</p>	✓
3(3)(iii)	<p>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.</p> <p>None of the directors were appointed to the Board during the period under review as detailed in the provisions of the cooling –off period in the direction.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (4)	Management functions delegated by the Board	
3 (4) (i) and 3 (4) (ii)	<p>All directors shall carefully study and clearly understand the delegation arrangements. Extent of delegation should not hinder Board's ability to discharge its functions.</p> <p>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.</p>	✓
3 (4) (iii)	<p>Review the delegation process in place on a periodic basis to ensure that they remain relevant to the needs of the bank.</p> <p>As and when new requirements have arisen, the Board has reviewed and amended delegation arrangements based on the recommendations made by the management.</p>	✓
3 (5)	The Chairman and the Chief Executive Officer	
3 (5) (i)	<p>The roles of the chairman and the chief executive officer shall be separate</p> <p>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.</p>	✓
3 (5) (ii)	<p>Non Executive Chairman and appointment of a Senior Director</p> <p>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.</p> <p>The designation of the Senior Director has been disclosed in the Annual Report, 2022.</p>	✓
3 (5) (iii)	<p>Disclosure of identity of the Chairman and CEO and any relationship among the Board members.</p> <p>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 2022. No relationship exist amongst the members of the Board other than the following;</p> <ul style="list-style-type: none"> • 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 were nominated to the Board by the Bank's material shareholder Central Finance Company PLC 	✓
3 (5) (iv)	<p>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.</p> <p>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.</p> <p>The requirement is further covered by the self evaluation process of the Board.</p>	✓
3 (5) (v)	<p>Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary.</p> <p>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.</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (5) (vi)	<p>Ensure that all the directors are properly briefed and provided with adequate information in a timely manner.</p> <p>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.</p>	✓
3 (5) (vii) And 3 (5) (viii)	<p>Encourage active participation by all Directors and lead acting in the interests of the Bank. Encourage participation of non executive directors and relationship between non executive and executive directors</p> <p>There is active participation by all directors at the Board meetings as well as at Board sub committee meetings as evidenced in the minutes.</p> <p>The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise.</p>	✓
3 (5) (ix)	<p>Chairman to Refrain from direct supervision of KMP and executive duties</p> <p>Chairman is a Non Executive Director and does not engage in day to day supervision of management or other executive duties.</p>	✓
3 (5) (x)	<p>Ensure effective communication with shareholders</p> <p>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.</p> <p>A communications policy has also been approved by the Board. The communication policy includes a provision for communication with shareholders.</p>	✓
3 (5) (xi)	<p>CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.</p> <p>Director/CEO of the Bank heads the Corporate Management team of the Bank and reports to the Board. He is responsible for the overall management of the day-to-day operations and business of the Bank.</p> <p>The Board approved paper on 'Functions of the Chairman and CEO' evidences the requirement of the rule.</p>	✓
3 (6)	Board appointed committees	
3 (6) (i)	<p>Establishing Board sub committees, their functions and reporting</p> <p>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.</p> <p>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 2022.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii)	Audit committee	
3 (6) (ii) (a)	<p>Chairman to be an independent non-executive director with qualifications and experience in accountancy and /or audit.</p> <p>The Chairperson of the Board Audit Review Committee (BARC), Ms. Rachini Rajapaksa is an Independent Non-Executive Director.</p> <p>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.</p>	✓
3 (6) (ii) (b)	<p>Committee to comprise solely of non-executive directors</p> <p>All members of the BARC are non executive directors.</p>	✓
3 (6) (ii) (c)	<p>Functions of the Board Audit Committee</p> <ul style="list-style-type: none"> • 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. <p>The BARC evaluates and makes recommendations to the Board with regard to the audit fee.</p>	✓
3 (6) (ii) (d)	<p>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.</p> <p>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.</p>	✓
3 (6) (ii) (e)	<p>Provision of non audit services by external auditors</p> <p>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.</p> <p>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.</p> <p>BARC further monitors the payments made to the auditor during the year for non-audit services to ensure compliance to the Direction.</p>	✓
3 (6) (ii) (f)	<p>Determines scope of audit with the external auditors</p> <p>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.</p> <p>During the tenure of the audit, regular status updates were obtained and discussed at the BARC meetings.</p> <p>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.</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (g)	<p>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;</p> <ul style="list-style-type: none"> (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 <p>the compliance with relevant accounting standards and other legal requirements.</p> <p>BARC meetings were held in 2022 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.</p> <p>The Financial Statements discussed and reviewed are recommended to the Board for approval.</p>	✓
3 (6) (ii) (h)	<p>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.</p> <p>The BARC met the External Auditors in the absence of the management of the Bank on two occasions in 2022. 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.</p>	✓
3 (6) (ii) (i)	<p>Review of the external auditor's management letter and the management's response thereto.</p> <p>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.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (j)	<p>Review of Internal Audit Function</p> <p>The BARC carries out the following with regard to the Internal Audit function:</p> <ul style="list-style-type: none"> (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 2022. 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 Chairman BARC at periodic BARC meetings. (There have been no resignations of senior level staff during the year 2022). (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)	<p>Internal Investigations</p> <p>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.</p> <p>BARC also ensures the key recommendations arising from such investigations are implemented.</p>	✓
3 (6) (ii) (l)	<p>Attendees at Board Audit Committee meetings</p> <p>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.</p> <p>During the period under review, BARC met with the External Auditor on ten occasions including two occasions without the presence of the management.</p>	✓
3 (6) (ii) (m)	<p>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</p> <p>This has been covered in detail in the Terms of Reference of the BARC and Internal Audit Charter.</p> <p>Please refer the Board Audit Review Committee Report on page 87 of the Annual Report</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (ii) (n)	<p>Regular meetings</p> <p>The Committee met ten times during the year 2022. 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.</p>	✓
3 (6) (ii) (o)	<p>The board shall disclose in an informative way,</p> <p>(i) details of the activities of the audit committee</p> <p>(ii) the number of audit committee meetings held in the year</p> <p>details of attendance of each individual director at such meetings</p> <p>Please refer the Board Audit Review Committee Report on page 87 of the Annual Report</p>	✓
3 (6) (ii) (p)	<p>Maintain minutes of meetings</p> <p>Detailed minutes are maintained by the Head- IA who is the Secretary to the BARC.</p>	✓
3 (6) (ii) (q)	<p>Whistle Blowing Policy and relationship with external auditor</p> <p>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.</p> <p>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.</p>	✓
3 (6) (iii)	Human Resources and Remuneration Committee (HRRC)	
3 (6) (iii) (a)	<p>Policy to determine the remuneration of directors, CEO and key management personnel</p> <p>Board approved Consolidated Human Resources Policy is in place</p>	✓
3 (6) (iii)(b)	<p>Goals and targets for the directors, CEO and key management personnel.</p> <p>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.</p>	✓
3 (6) (iii) (c)	<p>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.</p> <p>Minutes of the meeting of the HRRC indicate that such evaluations and the proposal put forward by HR/CEO for the remuneration in 2022 has been approved.</p>	✓
3 (6) (iii) (d)	<p>CEO is present at all meetings of the committee, except when matters relating to the CEO are being discussed.</p> <p>Approved TOR includes the provisions stipulated. CEO has attended all meetings and was excused when matters relating to him were discussed.</p>	✓
3 (6) (iv)	Nomination Committee	
3 (6) (iv) (a)	<p>Implement a procedure to select/appoint new directors, CEO and key management personnel</p> <p>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.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (iv) (b)	<p>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.</p> <p>The Committee has considered and recommended re-election of directors in compliance with the Rule.</p>	✓
3 (6) (iv) (c)	<p>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.</p> <p>Criteria has been set and included in the JDs of KMP approved by the Nomination Committee</p>	✓
3 (6) (iv) (d)	<p>Fit and proper criteria for directors, CEO and key management personnel</p> <p>Affidavits of the Directors including the Affidavit of the Director/CEO were submitted to the Committee during 2022 in order for the Committee to determine the suitability of the Directors. Having considered the Affidavits the Committee decided that the Directors are fit and proper persons to hold office. CBSL confirmation was also received on the fit and proper status of Directors. The Committee also carried out annual assessment of fitness and propriety of KMPs and determined that they meet the fit and proper criteria for KMPs.</p>	✓
3 (6) (iv) (e)	<p>Consider and recommend from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring directors and key management personnel.</p> <p>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. During the year under review, the Committee considered and recommended to the Board appointment of two Directors in place of the two Directors retired/resigned. The Committee also considered appointment of KMP. Succession plan of KMP was reviewed and recommended to the Board.</p>	✓
3 (6) (iv) (f)	<p>Committee Chairman and other members</p> <p>Senior Independent Director, Mr Conrad D'Souza serves as the Chairman of the Committee. CEO was invited to attend when his presence was deemed required by the Committee.</p>	✓
3 (6) (v)	Integrated Risk Management Committee (IRMC)	
3 (6) (v) (a)	<p>Composition of IRMC</p> <p>IRMC comprises of three non-executive directors, CEO and other relevant KMP.</p> <p>Committee functions as per the Board approved Terms of Reference in close co-operation with relevant KMP</p> <p>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.</p>	✓
3 (6) (v) (b)	<p>Risk assessment of the Bank, subsidiary companies and associate companies</p> <p>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.</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (6) (v) (c)v	<p>Review the adequacy and effectiveness of all management level committees</p> <p>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, Information Security Steering 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</p>	✓
3 (6) (v) (d)	<p>Corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels</p> <p>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.</p>	✓
3 (6) (v) (e)	<p>Committee to meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p> <p>IRMC has held ten meetings during the year.</p>	✓
3 (6) (v) (f)	<p>Actions against Officers responsible for failure to identify specific risks or implement corrective actions</p> <p>urgently Committee monitors risk Management by Departments through the departmental risk grids and various risk reports. In the event action is required against an officer found to have failed in identifying specific risks and take prompt corrective actions as recommended by the committee, action will be taken against him/her in terms of the Bank's established Human Resources policy.</p> <p>The Committee is authorized to direct Chief Executive Officer to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and is documented in the Terms of Reference of IRMC</p>	✓
3 (6) (v) (g)	<p>Risk assessment report to the Board</p> <p>A report has been submitted to the Board after each IRMC meeting as required by the Rule. In addition minutes of all IRMC meetings have been submitted to the Board.</p>	✓
3 (6) (v) (h)	<p>Compliance function</p> <p>The Compliance officer submits a report to the Committee at every meeting. The Bank has established a separate Compliance Division to assess the Bank's compliance. The Compliance Officer carries out the compliance function and report to the committee periodically on Bank's compliance with laws, regulations and approved policies on all areas of business operations.</p>	✓
3 (7)	Related Party Transactions	
3 (7) (i)	<p>Categories of Related Parties and avoidance of conflict of interest</p> <p>Board procedure contains provisions on avoiding conflicts of interests. Bank's credit policy contains provisions for ensuring compliance. Necessary steps have been taken by the Board to avoid any conflicts of interests that may arise, in transacting with related parties as per the definition in the direction.</p> <p>Board has also approved a framework for managing Relate Party Transactions and monitors its implementation through Related Party Transactions Review Committee.</p>	✓

Corporate Governance Annexure

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
3 (7) (ii)	<p>Types of transactions with related parties covered by this Direction ;</p> <p>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation</p> <p>(b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments</p> <p>(c) The provision of any services of a financial or non financial nature provided to the bank or received from the bank</p> <p>(d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.</p>	✓
	The Board approved related party policy contains provisions for same.	
3 (7) (iii)	<p>Ensure that the Bank does not engage transactions with related parties that would grant such parties more favourable treatment</p> <p>Refer comment in 3 (7) (i) above.</p> <p>Board approved Related Party Transactions Policy contains provisions to ensure compliance.</p> <p>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 2022.</p>	✓
3(7)(iv)	<p>Granting accommodation to a director of close relation of a Director</p> <p>All accommodations to directors and/or their close relatives have been granted with the approval of the Board. The Board ensured that such accommodation was secured by security determined by the Monetary Board.</p>	✓
3(7) (v)	<p>Accommodation granted to persons or concerns of persons or close relations of persons who subsequently are appointed as Directors of the Bank</p> <p>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.</p>	✓
3(7)(vi)	<p>Accommodation to employees or their close relations</p> <p>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.</p> <p>Board approved Related Party Transactions policy contains provisions to ensure compliance.</p>	✓
3(7)(vii)	<p>Prior approval of Monetary Board for remittance of accommodation</p> <p>There was no requirement to comply with the requirement of this Rule based on the comments made under Rule Numbers 3(7)(v) and 3(7)(vi) above.</p>	✓

Rule of Corporate Governance Number	Remarks on Level of Compliance	Complied
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 92 of the Annual Report of 2022.	✓
3 (8) (ii) (b)	A report by the Board on the Bank's internal control mechanism Included in page 84 to 85 of the Annual Report of 2022.	✓
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 50 of Annual Report 2022	✓
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 56 to 59 of the Annual Report of 2022	✓
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 56 and 59 of the Annual Report 2022.	✓
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 160 and 58 of the Annual Report of 2022.	✓
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, 2022.	✓
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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
LKR Mn (Group)										
OPERATING RESULTS										
Gross Income	20,362	20,854	20,279	25,547	35,333	43,461	46,314	40,666	38,378	64,818
Net Interest Income	7,675	8,940	9,105	9,786	11,909	15,164	16,134	13,672	14,078	29,301
Net Fees & Other Income	2,235	3,177	3,414	3,925	5,005	6,146	6,418	7,026	9,192	9,566
Total Operating Income	9,910	12,117	12,519	13,711	16,914	21,310	22,552	20,698	23,269	38,867
Operating Expenses	(5,779)	(6,363)	(6,862)	(7,620)	(8,773)	(10,310)	(10,808)	(9,296)	(9,122)	(11,559)
Impairment	(451)	(1,182)	(985)	(690)	(1,089)	(3,274)	(3,301)	(3,847)	(3,742)	(13,842)
Profit Before Taxation	3,681	4,571	4,672	5,400	7,052	7,726	8,444	7,555	10,405	13,466
Taxation & Levies	(1,544)	(2,035)	(2,058)	(2,531)	(3,680)	(4,024)	(4,730)	(3,500)	(3,712)	(6,238)
Profit After Taxation	2,136	2,537	2,614	2,869	3,371	3,702	3,714	4,055	6,694	7,228
Other Comprehensive Income (OCI)	(9)	104	(32)	(236)	1,262	(288)	664	327	(1,092)	543
Total Comprehensive Income	2,127	2,641	2,582	2,633	4,634	3,414	4,378	4,382	5,602	7,771
As at December 31st										
ASSETS										
Cash & Short-Term Funds	3,020	6,900	6,392	4,188	6,850	6,438	8,756	9,145	13,428	58,748
Statutory Deposits with Central Bank	4,032	3,992	5,284	8,512	11,213	12,762	8,377	2,195	6,915	6,074
Government Treasury Bills & Bonds	44,812	40,696	31,623	36,738	49,335	74,254	71,839	107,414	102,813	95,514
Investment Securities	2,315	3,949	7,065	6,926	7,028	-	-	-	-	-
Loans & Advances	82,327	98,347	121,143	149,818	186,746	221,506	226,794	210,186	247,441	241,241
Other Assets	2,894	1,419	1,386	1,814	1,941	5,085	4,154	4,147	4,481	8,586
Property Plant & Equipment	2,048	2,194	2,143	1,996	3,364	3,669	4,073	3,682	3,298	3,495
Intangible Assets	680	1,283	1,224	1,189	1,154	1,303	1,376	1,222	1,175	1,286
Total Assets	142,128	158,781	176,262	211,180	267,629	325,016	325,369	337,991	379,552	414,944
LIABILITIES										
Deposits	95,730	111,010	129,158	151,502	194,269	231,463	226,872	240,574	267,988	297,253
Due to Banks	1,401	2,923	2,276	11,851	12,315	18,475	6,484	4,942	2,016	3,989
Deferred Tax Liabilities	341	413	733	969	1,828	1,050	1,160	1,028	-	-
Borrowings	27,508	25,402	23,433	23,536	30,573	36,676	50,735	47,695	57,087	49,750
Other Liabilities	5,410	5,138	5,491	6,001	7,175	10,294	8,723	8,628	12,301	17,911
Total Liabilities	130,390	144,887	161,090	193,859	246,159	297,957	293,974	302,866	339,393	368,903
SHAREHOLDERS' FUNDS										
Share Capital/Stated Capital	5,101	5,101	5,101	5,101	5,101	8,866	9,408	9,408	9,408	10,401
Reserve Fund	419	538	661	796	1,011	1,199	1,372	1,562	1,882	2,228
Reserves	6,217	8,255	9,409	11,423	15,358	16,994	20,616	24,155	28,869	33,411
Total Shareholders' Funds	11,738	13,895	15,171	17,321	21,470	27,059	31,396	35,125	40,159	46,041
Total Liabilities & Shareholders' Funds	142,128	158,781	176,262	211,180	267,629	325,016	325,369	337,991	379,552	414,944
Commitments & Contingencies	90,267	98,799	96,792	123,585	171,587	190,602	199,359	197,231	217,357	226,253

Year Ended December 31st	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
RATIOS (GROUP)										
Operating Income Growth (%)	19.0	22.3	3.3	9.5	23.4	26.0	5.8	(8.2)	12.4	67.0
Cost/Income Ratio (%)	58.3	52.5	54.8	55.6	51.9	48.4	47.9	44.9	39.2	29.7
Return On Average Assets (%)	1.6	1.7	1.6	1.5	1.4	1.2	1.1	1.2	1.8	1.7
Total Assets to Equity (Times)	12.1	11.4	11.6	12.2	12.5	12.0	10.4	9.6	9.5	9.0
Tier 1 Capital Adequacy Ratio (%)	14.8	14.2	13.2	11.4	10.8	12.2	13.3	14.8	15.3	14.8
Total Capital Adequacy Ratio (%)	20.0	18.3	15.5	15.8	13.9	15.6	18.0	18.4	18.0	16.9
Return on Average Equity (%)	19.6	19.8	17.7	17.7	17.8	14.5	12.8	12.1	17.9	17.1
SHAREHOLDER INFORMATION (GROUP)										
Market Value per Share (LKR)-Voting	62.2	97.0	86.3	80.9	78.0	89.2	80.0	60.0	55.0	46.2
Market Value per Share (LKR)-Non Voting						82.1	80.0	75.0	65.1	57.4
Net Asset Value per Share (LKR)	50.9	60.3	65.8	75.1	93.1	97.4	110.6	123.7	141.5	152.7
Earnings Per Share (LKR)	7.6	9.1	9.4	10.3	12.1	11.6	11.6	12.7	20.9	22.6
Price Earning Ratio (Times) - Voting	8.1	10.7	9.2	7.9	6.5	7.7	6.9	4.7	2.6	2.0
Earnings Yield (%) - Voting	12.3	9.4	10.8	12.7	15.5	13.0	14.5	21.1	38.1	48.9
Cash Dividend Per Share (LKR)	2.1	2.1	2.1	2.1	-	-	2.3	2.0	-	-
Scrip Dividend Per Share (LKR)	-	-	-	-	2.1	2.1	-	-	3.5	4.0
Dividend Payout Ratio (%)	27.5	23.1	22.5	20.5	17.4	18.1	19.8	15.8	16.7	17.7
% of 20 Largest Shareholders-Voting	80	82	86	88	89	90	90	87	88	88
% of 20 Largest Shareholders-Non Voting						100	100	100	100	100
OTHER INFORMATION (Group)										
Number of Employees	2,262	2,562	2,695	2,770	2,943	3,128	3,151	2,832	2,677	2,479
Number of Branches	72	89	92	93	93	94	96	96	96	96
No of ATMs/CRMs	100	124	131	136	136	172	176	173	163	168

Service Network with Location Addresses

No	Branch	Address
1	Akkaraipattu	No 210, Main Street , Akkaraipattu.
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 249A, Maithripala Senanayake Mawatha, Anuradhapura.
7	Avissawella	No 107, Rathnapura Road, Avissawella.
8	Badulla	No 10, Bank Road, Badulla.
9	Balangoda	No 86/A, Bans Ratwatte Mawatha, Balangoda.
10	Bandaragama	No 14, Panadura Road, Bandaragama.
11	Bandarawela	No 326, Badulla Road, Bandarawela.
12	Battaramulla	No 103 A, Pannipitiya Road, Battaramulla.
13	Batticaloa	No 29 ,Bar Road,Batticaloa.
14	Boralesgamuwa	No 36, Lake Road, Boralesgamuwa.
15	Borella	No 67, D S Senanayake Mawatha, Borella,Colombo 8.
16	Chilaw	No 43,KurunegalaRoad,Chilaw.
17	Cinnamon Gardens	No 4A, Independence Avenue, Colombo 07.
18	City Office	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, Anuradhapura Road, Dambulla.
22	Dehiwala	No 163,Galle Road,Dehiwala.
23	Deniyaya	Janahitha Building,Pallegama Road,Deniyaya.
24	Digana	No 964/6, Nilagama, Digana, Rajawella.
25	Elpitiya	No 42, Ambalangoda Road, Elpitiya.
26	Embilipitiya	No 70, New Town Road, Embilipitiya.
27	Galle	No 144, Matara Road,Pettigalawatta,Galle.
28	Gampaha	No 112,Baudhaoka 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 Road, Jaffna.
39	Jawatte	No 139, Jawatte Road, Colombo 05.
40	Kadawatha	No 144/1A,Sumito Building,Kandy Road,Kadawatha.
41	Kaduruwela	No 292, Sawmill Junction, Kaduruwela.
42	Kaduwela	No 510, Colombo Road, Kaduwela.
43	Kalmunai	No 174,Batticaloa Road, Kalmunai.
44	Kalutara	No 340 , Main Street , Kalutara South.
45	Kandy	No 147, Kotugodella Street, Kandy.
46	Kandy City Centre	Kandy City Center, L1-17, Level 1, No 5, Kandy City Centre, Dalada Veediya, Kandy.
47	Karapitiya	No 241,Hirimbura Road,Karapitiya.
48	Katugastota	No 146, Kurunegala Road, Katugastota.

No	Branch	Address
49	Kegalle	No 179, Walawwa watta, Kegalle.
50	Kiribathgoda	No 69, Makola Road, Kiribathgoda.
51	Kohuwala	No 135A, Dutugemunu, Street, Kohuwala.
52	Kollupitiya	Lee Hedges Tower No349, Galle Road, Colombo 03.
53	Kotahena	No 258 , George R De Silva Mw, Colombo 13.
54	Kottawa	No 269/1, Mahalwarawa Junction, Kottawa.
55	Kuliyapitiya	No 72A, Hettipola Road, Kuliyapitiya.
56	Kurunegala	No 37, Puttalam Road, Kurunegala.
57	Mahabage	No 590 Negombo Road , Mahabage.
58	Maharagama	No 129, High Level Road, Maharagama.
59	Malabe	No 410/4, Athurugiriya Road, Malabe.
60	Matale	No 237/241, Main Street, Matale.
61	Matara	No 56, Esplanade Road, Matara.
62	Matugama	No 123/1, Agalawatta Road, Matugama.
63	Mawathagama	No 56 , Kurunegala Road , Mawathagama.
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	Nawala	No 267/A Nawala Road, Nawala.
69	Nawam Mawatha	Millennium House, 46/58, Nawam Mawatha, Colombo 02.
70	Negombo	No 72/A, Old Chilaw 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	No 903/18, Royal Mall Complex, William Gopallawa Mawatha, Kandy.
78	Pettah Bankshall Street	No 54A, Bankshall Street, Colombo 11.
79	Pettah Main Street	No 244, Main Street, Pettah. Colombo 11.
80	Pilimathalawa	No 234, Colombo Road, Pilimathalawa.
81	Piliyandala	No 30, Moratuwa Road, Piliyandala.
82	Private Banking Centre	No 53, Horton Place, Colombo 07.
83	Rajagiriya	No 196, Sri Jayawardenapura mawatha, Welikada, Rajagiriya.
84	Ratnapura	No 189, Main Street, Ratnapura.
85	Sri Sangharaja Mw.	No 545 A Sri Sangaraja Mawatha Colombo 10.
86	Tangalle	No 110, Thissa Road, Tangalle.
87	Thalawatugoda	No 245/2, Pannipitiya Road, Thalawathugoda.
88	Tissamaharama	No 43/2, Kachcheriyagama, Hambanthota Road, Tissamaharama.
89	Trincomalee	No 96, Main Street, Trincomalee.
90	Vavuniya	No 45A, 02nd Cross Street, Vavuniya.
91	Wariyapola	No 84, Puttalam Road, Wariyapola.
92	Wattala	No 492, Negombo Road, Wattala
93	Weligama	No 354/29, Samaraweera Place, Sirimavo Bandaranayake Mw, Weligama.
94	Wellawatta	No 595, Galle Road, Wellawatte.
95	Wennappuwa	No 289, Chilaw Road, Wennappuwa,
96	World Trade Center	World Trade Centre, Unit L03/ EB 01/ Level 3, East Tower, Colombo 01.

Service Network with Location Addresses

No	ATM Location	Address
1	Akkaraipattu	No 210, Main Street , Akkaraipattu.
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 General	No 181, Kirula Road, Narahenpita
4	Borella	Keells Super- Borella, No 85, Dr N.M. Perera Mawatha, Colombo 08
5	Cinnamon Lakeside	No 115, Sir Chitthampalam A Gardiner Mawatha, Colombo 02
6	Digana	MAS Factory, BOI, Pallekelle
7	Hive	No 256, Sri Ramanathan Mawatha, Kotahena, Colombo 15
8	Kadana	Arpico Daily, No 88, Negombo road, Kandana
9	Kaduruwala	Texwin Clothing (PVT) LTD, BOP 398, Abayapura, Pulasthigama, Kaduruwela
10	Kalubowila	No 53,Hospital Road,Kalubowila,Dehiwala
11	Kottawa	Keells super,No 119,Horana Road,Kottawa
12	Kurunegala	Arpico Super Center, No 275,Colombo Road, Kurunegala
13	Leesons Ragama	Leesons Hospital, No 32, Thewatta Road, Ragama
14	Matara	Arpico Super Centre, No A2, Matara Road, Matara
15	Negombo	Keells Super Negombo , No 41, Archbishop Nicholas Marcus Fernando Mawatha, Negombo
16	Panadura	Arpico super center, No 542, Galle road, Panadura
17	Peradeniya	Royal Mall Shopping Complex, No 903/18, William Gopallawa Mw, Kandy
18	Rajagiriya	Keells Super Rajagiriya, No 475, Sri Jayewardenepura Road, Rajagiriya

No	CRM Location	Address
1	Akuregoda	Keells - No 244, Pothuarawa Road, Akuregoda
2	Ampara	No 22, Liyanwala building, Ampara
3	ANC	No 308, 310 R. A. De Mel Mawatha, Colombo
4	Bellanthota (Attidiya)	Keells - No 208, Attidiya Road, Bellanthota
5	CINEC	CINEC Maritime Campus, Millennium Drive, IT Park ,Malambe.
6	Cinnamon Life	No 00200, Glennie Street, Colombo 02
7	Hokandra	Keells - No 188, Hokandara Road, Thalawathugoda
8	Kohuwala	Keells - No 71 Sunethradevi Road, Nugegoda
9	Makumbura	Makumbura Multimodal Centre (MMC) - Kottawa , 168 Avissawella Road, Pannipitiya
10	Mawaramandiya	Keells - No 475 B262, Udupila Road, Mawaramandiya
11	Miriswatte	Keells - No 39, Gampaha Road, Miriswattha
12	Pittakotte (Bedegana)	Keells - No 216A Pittakotte - Thalawathugoda Rd, Sri Jayewardenepura Kotte
13	Sinharamulla -Kelaniya	Keells - No 356, Biyagama Road, Gonawela,Kelaniya
14	SLIC - Vauxhall	Rakshana Mandiraya,No.21, Vauxhall Street, Colombo 02
15	SLIIT	SLIIT, New Kandy Road,Malabe
16	Thalawathugoda -Kalalgoda	Keells - No 158 Pannipitiya Road, Thalawathugoda
17	Wattala	Keells Super-Wattala, No 385, Negombo Road, Wattala

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.

Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigates such as collateral, guarantee and credit protection.

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.

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

Glossary

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

Going Concern

The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially or the scale of its operations.

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 (NII)

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.

Net Interest Margins (NIM)

Net interest income expressed as a percentage of average Total Assets.

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

Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due

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

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.

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 Fourth Annual General Meeting of Nations Trust Bank PLC

Administrative Details

In terms of the guidelines issued by the Colombo Stock Exchange (CSE) on holding virtual shareholder meetings and relevant statutory provisions, the Twenty Fourth (24th) 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 Friday, 31st March, 2023 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. +94 112 307 854 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. +94 112 307 854 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) 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 AGM, 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 AGM.
- (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:+94 112 307 854 or by post to the Company Secretary, Nations Trust Bank PLC, No. 242, Union Place, Colombo 02. The responses from the Board of Directors and the Management to the questions will be forwarded to the shareholders by the Bank.

4. This Notice together with Registration Form, Notice of Meeting and Proxy Forms will also be published in the Bank's website (www.nationstrust.com) and in the website of the Colombo Stock Exchange (www.cse.lk).
5. The Date fixed for the AGM to be held on 31st March 2023 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 online platform.

By order of the Board



Theja Silva
General Counsel/Company Secretary

23rd February 2023

Notice of Meeting

Notice is hereby given that the Twenty Fourth Annual General Meeting of Nations Trust Bank PLC will be held by virtual means on Friday, 31st March, 2023 at 10.00 a.m. centred 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, 2022 with the Report of the Auditors thereon.
3. To re-elect Ms. Rachini Rajapaksa who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.
4. To re-elect Mr. Chanaka Wickramasuriya who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.
5. To re-elect Mr. Arjun Fernando who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.
6. To elect Mr. Hemantha Gunetilleke 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.
7. To elect Mr. Sanjeev Jha who was appointed to the Board after the last Annual General meeting, as a Director in terms of Article 25 of the Articles of Association of the Company.
8. To reappoint Auditors and to authorise the Directors to determine their remuneration.
9. To authorise the Directors to determine and make donations.
10. To consider any other business of which due notice has been given.

Notes:

- i. A member unable to attend is entitled to appoint a proxy to attend and vote in his/her behalf.
- ii. A proxy need not be a shareholder of the Company.
- iii. A member wishing to vote by proxy at the meeting may use the Proxy Form enclosed.
- iv. To be valid, the completed Proxy Form must be lodged at the Registered Office of the Company not less than 48 hours before the meeting.

By Order of the Board



Theja Silva

General Counsel/Company Secretary

23rd February 2023

Form of Proxy (Voting Shareholders)

I/We.....of
 being a Shareholder/
 Shareholders 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. 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. Sanjeev Jha or failing him
- Mr. Hemantha Gunetilleke

as my/our Proxy to represent me/us and to vote for me/us on my/our behalf at the Twenty Fourth Annual General Meeting of the Company to be held by virtual means on Friday, 31st March, 2023 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, 2023.

.....
 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 2022 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Ms. Rachini Rajapaksa who retires by rotation at the Annual General Meeting, as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. Chanaka Wickramasuriya who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. Arjun Fernando who retires by rotation at the Annual General Meeting as a Director pursuant to Article 27 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To elect Mr. Hemantha Gunetilleke 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.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Mr. Sanjeev Jha 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.	<input type="checkbox"/>	<input type="checkbox"/>
7. To reappoint Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>

Instructions for 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. +94 112 307 854 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 Shareholder/
Shareholders 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. 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 Sanjeev Jha or failing him
- Mr. Hemantha Gunetilleke

as my/our Proxy to represent me/us at the Twenty Fourth Annual General Meeting of the Company to be held by virtual means on Friday, 31st March, 2023 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, 2023.

.....

Signature/s

Instructions for 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. +94 112 307 854 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 FOURTH ANNUAL GENERAL MEETING - 31ST MARCH 2023

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 Cooray – *Chairman*
Mr. Conrad D'Souza – *Senior Director*
Mr. Hemantha Gunetilleke – *Director/CEO*
Ms. Rachini Rajapaksa
Mr. Russell De Mel
Mr. Savanth Sebastian
Ms. Sherin Cader
Mr. Chanaka Wickramasuriya
Mr. Arjun Fernando
Dr. Ramesh Shanmuganathan
Mr. Chandika Hettiarachchi
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