COMMERCIAL BANK

# IN CONTEXT

## Weathering a perfect storm

**Commercial Bank of Ceylon PLC**

Annual Report 2022

(Integrated Report and Financial Statements)

# IN CONTEXT

Weathering a perfect storm

The theme is presented to the reader in mirrored text on the front cover and then re-presented in regular text on the inner cover. This visual concept first evokes the disorienting and turbulent operating environment in Sri Lanka in 2022 and then suggests a shift in perspective that allows for clarity and understanding.

## Our Vision

To be the most technologically advanced, innovative and customer friendly financial services organization in Sri Lanka, poised for further expansion in South Asia.

## Our Mission

Providing reliable, innovative, customer friendly financial services, utilizing cutting edge technology and focusing continuously on productivity improvement whilst developing our staff and acquiring necessary expertise to expand locally and regionally.

## Our Purpose

To be a responsible financial services provider by enabling and empowering people, enterprises and communities towards environmentally-responsible, socially-inclusive and economically-enriching growth.

## Our Values

- **Honesty** – We strive to earn and retain the trust of our stakeholders through transparent actions that inspire them and align with their values.
- **Integrity** – Maintaining our integrity is of paramount importance to us in ensuring that our brand value keeps growing for all stakeholders.
- **Fairness** – We focus on doing the right thing by all our stakeholders so that their trust in us continues to deepen, enriching invaluable relationships.
- **Responsible citizenship** – Continuing our commitment to the community we focus on making lives better and being a force for good.
- **Accountability** – We live by our brand values, ready to take responsibility for our actions towards all stakeholders.

**A series of events of great adversity over the recent past combined to unleash a perfect storm in Sri Lanka. No person or sector of endeavour including the banking industry was spared the ill effects of the economic mayhem that followed. Despite the many negatives experienced, the inherent strength coupled with the yeoman effort and professionalism of our staff helped the Bank to remain resilient. We also kept faith in our proven prudence of strategy, and adherence to a progressive drive towards enhancements in technology, customer convenience and operational efficiencies, to take the Bank forward. These lend context to the overall performance for the year and the solidity of the Bank's proposition.**

# Contents




This Annual Report is published within three months of the date of the Statement of Financial Position. The comprehensive end to-end online HTML version is also published online on the same date as the date of issue of this Annual Report at

https://combank2022.annualreports.lk/

Scan to view the online version

* All the industry related figures mentioned in this Annual Report have been extracted/computed/annualised based on the information published by the CBSL as at September 30, 2022.

In addition, all references to the banking industry figures for the years prior to 2022 stated in this Annual Report are based on the CBSL publications, which were based on then prevailing regulatory reporting requirements and may differ from the figures published as per the Sri Lanka Accounting Standards.

Look out for these throughout the report:

- Reference to another page, table, figure or graph in the report
- Reference to further reading online

# Annual Report of the Board of Directors

## Preamble

The Board of Directors of Commercial Bank of Ceylon PLC (the Bank) is pleased to present to the shareholders the 54th Annual Report of the Bank comprising an integrated report, the Audited Financial Statements of the Group and the Bank for the year ended December 31, 2022, and the Independent Auditors' Report on the Financial Statements conforming to all applicable statutory requirements.

## Integrated Reporting and strategic thinking

This Integrated Report, where applicable, is presented in accordance with the Guiding Principles and Content Elements as stipulated by the International <IR> Framework of the IFRS Foundation.

The Bank has obtained independent assurance on integrated reporting and non-financial information on sustainability reporting from Messrs Ernst & Young and assurance on non-financial reporting from Messrs DNV Business Assurance Lanka (Pvt) Ltd., who represents DNV and the above independent assurance reports are appearing on pages 433 to 439.

This Report effectively communicates the Bank's efforts to create value for all its stakeholders across the short, medium and long term through its business model as given on pages 54 and 55, and identifies the emerging developments and trends that are likely to impact its business model and value creation process.

These trends have been categorised into risks and opportunities based on their importance to the Bank and its stakeholders, together with the stakeholders that are likely to be affected most. Through its annual strategic planning exercise, the Bank has developed a Sustainability Framework and identified strategic imperatives and continued to execute the required strategies to mitigate risks and capitalise on opportunities.

A detailed account of the three pillars of the Sustainability Framework, the strategic imperatives and strategies are given in the Management Discussion and Analysis given on pages 58 to 137 contained in this Report. The underlying governance structure and the risk management framework are detailed on pages 138 and 228.

## Board's responsibility

According to sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto, the Bank's Board of Directors is responsible for the preparation of the Financial Statements of the Group and the Bank, which reflect a true and fair view of the financial position and performance of the Group and the Bank. In this respect, the Board of Directors wishes to confirm that the Financial Statements, namely, Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Significant Accounting Policies and Notes thereto appearing on pages 237 to 386 have been prepared and presented in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007 and amendments thereto.

This Report also provides the information and disclosures as required by the Companies Act No. 07 of 2007 and amendments thereto, Banking Act No. 30 of 1988 and amendments thereto, the Directions issued thereunder including the Banking Act Direction No. 11 of 2007 and subsequent amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) including the Rules pertaining to Related Party Transactions as required by Section 9.3.2 thereof and the Code of Best Practice on Corporate Governance 2017 issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Board of Directors has approved and authorised the issue of the Financial Statements of the Group and the Bank for the year ended December 31, 2022, including comparatives for 2021, in accordance with the resolution of the Directors on February 24, 2023. Within the statutory time limits, the appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) and soft copies of same will be hosted on the website of the Bank, *www.combank.lk*.

The opinion expressed by the Bank's External Auditors, Messrs Ernst & Young, who were appointed in accordance with a resolution passed at the 53rd Annual General Meeting held on March 30, 2022, is given on pages 232 to 234 of this Annual Report. The details on the remuneration of External Auditors are given in Note 21 on page 281 to the Financial Statements. As far as the Directors are aware, the Auditors do not have any other relationship with the Bank, or any of its subsidiaries and the associate. The External Auditors do not have any interest in contracts with the Bank, or any of its subsidiaries and the associate.

The Board, to the best of its knowledge and belief, is satisfied with the timely disbursement of all statutory payments to the Government, other regulatory institutions, and to employees.

Having reviewed the business plans of the Bank and its subsidiaries and the associate, the Board of Directors is satisfied that the Bank and its subsidiaries and the associate have adequate resources to continue their operations in the foreseeable future. Accordingly, the Financial Statements of the Group and the Bank are prepared based on a going concern assumption.

The Board having carefully considered the matters material to the Bank and its stakeholders, acknowledges that reasonable care has been exercised in the preparation and presentation of this Integrated Report and Financial Statements while preserving its integrity.

### Extent of compliance with applicable statutes, directions and codes on governance

The extent of compliance with the requirements of Section 168 of the Companies Act No. 7 of 2007 and amendments thereto and other relevant statutes are disclosed in detail on pages 188 to 194 while a comprehensive disclosure on the extent of compliance with the requirements of the following Directions and Code on good governance is given in detail in Annex 1 on pages 388 to 410.

- The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka (CBSL) (Annex 1.1 on pages 388 to 399)
- The Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka (Annex 1.2 on pages 400 to 405)
- Disclosure requirements under the prescribed format issued by the CBSL for preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks (Annex 1.3 on pages 406 to 410)

### Fifty fourth (54th) Annual General Meeting

Shareholders are kindly requested to attend the fifty fourth Annual General Meeting of the Bank to be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on Thursday, March 30, 2023, at 2.30pm as stated in the Notice of Meeting given on page 454 of this Annual Report which is signed in accordance with a resolution adopted by the Directors.

Having carefully considered the matters material to the Bank and its stakeholders, the Board of Directors acknowledges that reasonable care has been exercised in the preparation and presentation of this Integrated Report and Financial Statements while preserving its integrity.

As required in terms of Section 168 (1) (k) of the Companies Act No. 7 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

Signed in accordance with a resolution of the Board of Directors.

**Prof A K W Jayawardane**
Chairman

**S Muhseen**
Deputy Chairman

**S C U Manatunge**
Managing Director/
Chief Executive Officer

**L D Niyangoda**
Director

**Ms N T M S Cooray**
Director

**Ms J Lee**
Director

**R Senanayake**
Director

**Ms D L T S Wijewardena**
Director

**S Prabagar**
Executive Director/
Chief Operating Officer

**Dr S Selliah**
Director

**D N L Fernando**
Director

**R A P Rajapaksha**
Company Secretary

February 24, 2023

**External assurances obtained**

| Internal Controls | Financial Statements | Sustainability Reporting | Integrated Reporting | Non-financial Reporting |
|---|---|---|---|---|
| Independent Assurance Report on the Directors' Statement on Internal Control | The Bank's external Auditors, Messrs Ernst & Young, have assured the Group's Financial Statements | Messrs Ernst & Young have assured the Bank's Sustainability Reporting Criteria | Messrs Ernst & Young have assured the Bank's Integrated Reporting | Messrs DNV has assured the Bank's Non-Financial Reporting |
| Sri Lanka Standard on Assurance Engagements **SLSAE 3050** (Revised) | Sri Lanka Auditing Standards | Sri Lanka Standard on Assurance Engagements **SLSAE 3000** (Revised) | Sri Lanka Standard on Assurance Engagements **SLSAE 3000** (Revised) | AccountAbility's **AA1000 Assurance Standard v3** and DNV's assurance methodology – VeriSustain™ |
| Page 199 | Pages 232 to 234 | Pages 433 and 434 | Pages 435 and 436 | Pages 437 to 439 |

# Introducing our 54th Annual Report


### The journey so far

Commercial Bank's inaugural annual report, binding to the International <IR> Framework for integrated reporting, took shape in the year 2013. This Report comprising the Integrated Report and the Financial Statements is the 54th overall report and covers the period from January 01, 2022, to December 31, 2022, adhering to the annual reporting cycle for sustainability and financial reporting. This follows our most recent Report for the year ended December 31, 2021, for which comparatives are given, where applicable.

Heeding to the calls of various stakeholders, regulators as well as best practices, we have taken measures to be as concise as possible and to be as clear as we can, to meet the diverse information needs of our valued stakeholders. We have endeavoured to begin each section of this Annual Report with a clear and concise overview, that will extend to a narrative of the most important information pertaining to the Bank in 2022. Thereby, this Annual Report seeks to provide a holistic and integrated narrative of the Bank's performance, operations, sustainability framework, and strategic imperatives, leading to sustainable value creation.

### Navigating with prudence

We have delved into remedial interventions that the Bank employed to resist the pandemic and economic stresses that were felt throughout 2022. Stakeholders felt hardships at varying degrees, and the resultant landscape required bridging of varied expectations to the personalised delivery of banking utilities, to meet stakeholder hopes and aspirations. A detailed account of the measures implemented during the financial year is given in the Management Discussion and Analysis on pages 58 to 137.

### Transcending the medium to a handful of avatars

Consistent with last year's report and the trends pertaining to modern annual report disclosures, and binding to the Swiss Army Knife model, our Annual Report has been made available in multiple mediums and formats catering to the communications needs of the Bank's diverse stakeholder groups. A limited number of printed annual reports have been produced to be dispatched to those who have requested them, taking into to account the environmental footprint of printing a large number of reports as well as the prevailing regulations. Readers who prefer the ease of accessing our Annual Report online can access the Online Interactive version of the Annual Report while a soft copy (PDF) version is hosted on the websites of the Bank as well as the CSE for those who would like to maintain an easy-portable digital version. The Report can also be accessed by scanning the QR code given on page 2. This approach also aims to balance the disparate imperatives of conciseness, comprehensiveness, and accessibility in our disclosure practices.

The Online Interactive version of the Annual Report contains features to facilitate easy navigation across various sections of the Annual Report including unique Business Model of Financial Institutions, Statement of Capital Position, Duality of Value Creation, animated graphs, Notes to the Financial Statements that appear on a mouse over and hyperlinked cross references. Further, this version also includes the following user-friendly features;

- Customised graph generator
- "My Report" to build a customised report, print sections, download sections
- Download Centre

Irrespective of the medium, information is central to effective investor engagement. This Annual Report provides investors with insights into the Bank's growth potential and the strategies by which the growth will be achieved.

### Strategic focus and plurality of capitals

Sections 2.17 & 2.18 of the International <IR> Framework of the IFRS Foundation gives discretion to organisations to structure an integrated report and select capitals that suit the organisation most. Accordingly, this Report is structured based on the Bank's 3-Pillar Approach to sustainability, viz. Sustainable Banking, Responsible Organisation and Community Sustainability, giving the reader a clear understanding of the Bank's Sustainability Framework given on page 52 and how it will help the Bank achieve the underlying purpose of "Being a responsible financial services provider by enabling and empowering people, enterprises and communities towards environmentally-responsible, socially-inclusive and economically-enriching growth". How the activities undertaken under these three pillars and in terms of the four strategic imperatives of Prudent Growth, Customer Centricity, Leading through Innovation and Operational Excellence lead to value creation over short, medium and long-term for the mutual benefit of the Bank and the various stakeholders, which is reflected in Financial, Manufactured, Intellectual, Human, Social & Relationship and Natural Capitals is given on pages 56 to 57. While assimilating the many efforts – mostly in inhospitable times – made by the Bank's cross-disciplinary leadership into cohesive and convergent outcomes, this structure highlights the plotted course of action that will propel the Bank forward and sustain the value creation process while contributing to seven UN Sustainable Development Goals (SDGs) most relevant to the Bank in the context of certain guiding principles & standards and governance structure.

**Criteria underlying the preparation of this Annual Report**

- Strategic focus and future orientation
- Integrated thinking
- Non-financial information
- Guiding principles and frameworks
- Qualitative criteria
- Independent assurances

## An integrated thinking cap

Commencement of integrated reporting in line with the <IR> Framework elements in 2013 has strengthened and reinforced integrated thinking across the Bank, leading to the integration of various aspects, making the Bank more sustainable in creating value over the long term by minimising risks, reducing compartmentalisation and dysfunctional behaviour, generating cost efficiencies, and making capital allocation more efficient. This not only integrated economic goals with those of society and environment, but also integrated many other aspects such as the following, as you will find later in this Report:

- Once a brick-and-mortar operation, the Bank in modernity is a digital superstore with a myriad of easy-to-use integrated products placed on digital shelves
- Repurposing of strategy with plans to pivot the business model to meet the emerging and disruptive forces of change
- The organisation from a functional and team-based one to a cross-functional integrated one
- Integrating service standards across all the channels leading to consistency in customer experience
- The Bank's key messages across all communication channels for greater clarity
- Integrated software systems propelling the Bank to new standards of efficiency and agility
- Integrated audits combining onsite, offsite, online and near real-time approaches
- Integration of data from different sources to generate a unified view
- Information available across channels and products
- The Bank with other service providers such as telcos, insurers, other banks, Non-Banking Financial Institutions (NBFIs) and fintechs

## Non-financial information

Recent trends make it clear that in addition to traditional forms of financial reporting, stakeholders in general, and providers of financial capital in particular, want access to non-financial information when assessing future potential of corporates. The Bank is well aware that information needs of stakeholders are changing in keeping with the dynamic environment we operate in. Investors in particular are increasingly becoming more interested in the future potential of the Bank than its past performance and non-financial information is becoming more and more relevant for ascertaining future potential. Accordingly, going beyond the historical financial information that depicts the value created in the past, we have enhanced disclosures of non-financial and future-oriented information that depicts the ability of the Bank to create value in the short, medium and long-term, the essence of sustainability and integrated reporting.

## Basis of preparation

This Report has been prepared in line with the International <IR> framework, and the Bank's social and environmental impacts are presented in accordance with the GRI Standards. It also comments on the Bank's contribution towards the most relevant seven UNDP SDGs on pages 52 and 78.

The concepts, principles, and guidelines used in the preparation of this Annual Report are drawn from the following sources:

INTEGRATED REPORTING
Now part of IFRS Foundation

**The International Financial Reporting Standards Foundation (IFRS)** ***(https://www.ifrs.org/)***

GRI

**The Global Reporting Initiative Sustainability Reporting Guidelines – GRI Standards** ***(www.globalreporting.org)***

CA THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

**A Preparer's Guide to Integrated Corporate Reporting, published by CA Sri Lanka**

**Handbook on Integrated Corporate Reporting, published by CA Sri Lanka in collaboration with The Integrated Reporting Council of Sri Lanka**

**Sustainability Framework of the Bank – page 52**

## Report boundary

The Financial Statements given on pages 237 to 386 depict the consolidated performance of the entire Group, which includes the Bank along with seven subsidiaries – Commercial Development Company PLC, CBC Tech Solutions Limited, CBC Finance Ltd., Commercial Insurance Brokers (Pvt) Ltd., Commex Sri Lanka S.R.L. Italy, (under voluntary liquidation) Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited – and the associate – Equity Investments Lanka Ltd.

The Bank's social and environmental impact, elaborated within the Management Discussion and Analysis presented on pages 75 to 99, focuses on both Sri Lankan and Bangladesh operations of Commercial Bank of Ceylon PLC, the Parent entity of the Group which accounts for more than 97% of Group's revenue, assets and deposits, unless stated otherwise.

Internal and external assessments of the Bank's operations in Sri Lanka and in other countries such as Bangladesh are encompassed within the material aspects boundaries. The Bank always takes into account reasonable aspirations and expectations of its stakeholders and engages with them in myriad ways and they have been taken into account in deciding on the information content of this Report as depicted on pages 36 to 45 on "Connecting with Stakeholders" and "Material Matters". Information is presented in a sustainability context, covering topics that reflect the Bank's significant economic, environmental and social impacts that substantively influence stakeholder decisions. For the convenience of the stakeholders, quantitative and qualitative data along with reliable external benchmarks wherever possible has been provided to ensure completeness and aid comparison and further analysis of information within this Report.

During the year under review, no significant changes in the organisation type, structure, ownership, supply chain or topic boundaries took place. Also, there were no changes in reporting or restatements to the previously reported financial, social or environmental information.

Figure – 01: **Qualitative Criteria used in the production of the Annual Report**

**Completeness:** Encompasses material impacts, both within and under the direct control of the Bank as well as external impacts that are indirectly influenced through our engagement with stakeholders and broader sustainability initiatives undertaken through the Bank's own CSR Trust.

**Comparability:** Includes the performance of current and previous reporting periods together with industry benchmarks, where relevant and available.

**Accuracy and Consistency:** Information is supported by inbuilt internal controls to facilitate traceability and verifiability of information.


**Clarity:** Incorporates both text and visual elements to enhance readability, facilitate understanding, and maintain concision.

**Balance:** Makes every possible effort to present a fair representation of relevant material information.

**Credibility and Reliability:** Financial and sustainability information has been vetted by reputed external assurance service providers.

## Quality assurance

Through this Integrated Report, we set out to provide you with a holistic and meaningful picture of our business model, Sustainability Framework, strategy, governance, performance, and future prospects. We also strive to illustrate the value created by the Bank in terms of non-financial resources such as Human, Natural, Intellectual, and Social and Network capitals, in addition to Financial capital.

In addition, every effort is taken to provide credible information with the aid of visual elements such as figures, graphs, and tables in a consistent manner facilitating clarity and comparability.

The qualitative criteria that were taken into account in the production of both text and visual elements presented in this Annual Report are given in Figure 01.

## Precautionary principle

We are mindful of the direct and indirect social, climate and environmental ramifications of our operations, the indirect consequences resulting from the business activities of our borrowers in particular. We continue our *de facto* role to avoid, reduce and remedy any such negative impacts through the Bank's Sustainability Framework viz., ongoing review of credit policies, stronger screening based on the Social and Environmental Management System (SEMS), close post-disbursement supervision, dedicated green portfolio of products and astute risk management procedures.

The Bank's business model and operations do not directly create a significant negative impact on the environment. Nevertheless, every effort is made to reduce our own carbon footprint through initiatives such as solar energy usage, energy efficient air conditioning and the elimination of paper usage in our processes. These efforts enabled the Bank to become the first fully carbon neutral bank in the country in 2020 coupled with carbon credits while the Bank is on the way to become carbon neutral on its own.

Figure 02 on page 8 illustrates the guiding principles, regulations, codes, and Acts used for financial and narrative reporting; reporting on sustainability goals and practices; and the governance of the Bank.

## Responsibility for sustainability practices and external assurance

Guided by the Bank's Sustainability Framework, the Bank's Managing Director/Chief Executive Officer, the Executive Director/Chief Operating Officer and other members of the Corporate Management are responsible for the sustainability practices and disclosures made in this Report. They have actively engaged with the external assurance providers on the Report content in this regard.

The Bank's external Auditors, Messrs Ernst & Young, have assured the Group's Financial Statements, integrated reporting and non-financial information on sustainability reporting, while Messrs DNV Business Assurance Lanka (Pvt) Ltd., who represents DNV, has assured the Bank's non-financial reporting. The Board of Directors and the Management have no other relationship with these external assurance service providers, aside from their engagement as independent Assurance Service providers for the Group.

## Navigation icons

### 3-Pillars of Sustainability Framework

Sustainable Banking
Responsible Organisation
Community Sustainability

### Capitals

Financial Capital
Manufactured Capital
Intellectual Capital
Human Capital
Social & Network Capital
Natural Capital

### Stakeholders

Investors
Customers
Employees
Society and Environment
Business Partners
Government Institutions and Regulators

Figure – 02: **Guiding Principles, Regulations, Codes, and Acts for financial and narrative reporting**

## FINANCIAL REPORTING

Sri Lanka Accounting Standards (SLFRSs & LKASs) and Auditing Standards Act No. 15 of 1995

Companies Act No. 07 of 2007 and amendments thereto (Companies Act)

Circular No. 2 of 2019 on the Preparation, Presentation and Publication of Annual Audited Financial Statements of Licensed Commercial Banks issued by the CBSL

Banking Act Direction No. 13 of 2021 on Classification, Recognition and Measurement of Credit Facilities in Licensed Banks

Banking Act Direction No. 14 of 2021 on Classification, Recognition and Measurement of Financial Assets other than Credit Facilities in Licensed Banks

Guidelines issued by CA Sri Lanka in the form of Statements of Alternative Treatment (SoAT)

Listing Rules of CSE

## NARRATIVE REPORTING

International <IR> Framework

- A Preparer's Guide to Integrated Reporting by CA Sri Lanka in collaboration with the Integrated Reporting Council of Sri Lanka
- Handbook on Integrated Corporate Reporting by CA Sri Lanka

## SUSTAINABILITY REPORTING

GRI Standards – Revised 2021 issued by the Global Sustainability Standards Board (GSSB)

UNGC Principles and UN Sustainable Development Goals

Sustainability Accounting Standard for Commercial Banks of the Sustainability Accounting Standards Board (SASB) of the IFRS Foundation

AccountAbility – AA 1000 Assurance Standard v3

## CORPORATE GOVERNANCE

Banking Act Direction No. 11 of 2007

Listing Rules of CSE

Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka

Securities and Exchange Commission of Sri Lanka – Act No. 36 of 1987 (as amended)

## ASSURANCE

Sri Lanka Auditing Standards

Sri Lanka Standard on Assurance Engagements SLSAE 3000; Assurance Engagements other than Audits or Review of Historical Financial Information

AccountAbility's AA1000 Assurance Standard v3

DNV assurance methodology VeriSustain™

### Contact

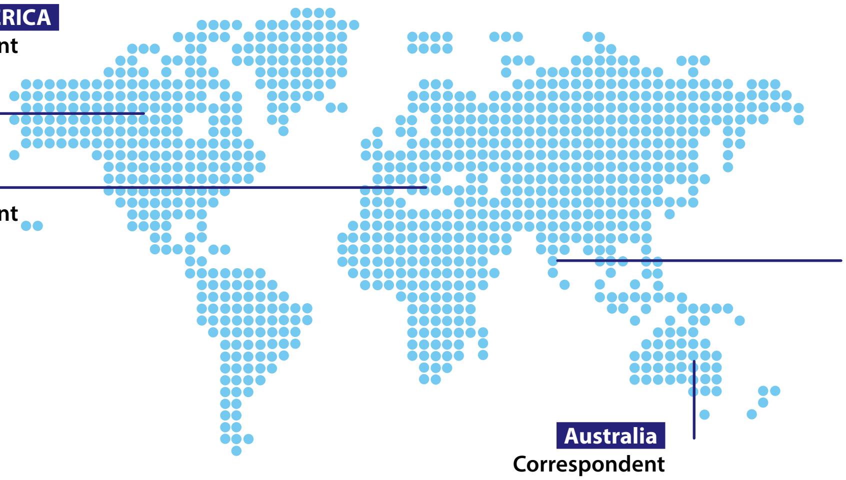
Your comments or questions on this Integrated Report are welcome and we invite you to direct them to:

**Chief Financial Officer**
Commercial Bank of Ceylon PLC
"Commercial House"
No. 21, Sir Razik Fareed Mawatha
Colombo 01
Sri Lanka

# INTEGRATED REPORT

As permitted by the International <IR> Framework, this integrated report has been included in the Annual Report of the Bank as a distinguishable and prominent section. This Report, where applicable is presented in accordance with the Guiding Principles and the Content Elements as stipulated in the Framework. As stated in the Annual Report of the Board of Directors on page 4, the Board of Directors acknowledges that reasonable care has been exercised in the preparation and presentation of this Integrated Report while preserving its integrity.

# Organisational Overview
# About the Bank



**NORTH AMERICA**
Correspondent Banks
11

**EUROPE**
Correspondent Banks
19

**Australia**
Correspondent Banks
2

**ASIA**

**Sri Lanka**
Branches
269
Subsidiaries
4
Associate
1

**Maldives**
Subsidiary
1

**Myanmar**
Subsidiary
1
Correspondent Banks
26
Business Promotion Officers
10

**Bangladesh**
Branches
20

## Higher-tier Domestic Systemically Important Bank

Commercial Bank of Ceylon PLC is the only private sector bank in Sri Lanka designated by the CBSL as a higher-tier Domestic Systemically Important Bank (D-SIB). Total assets of the Commercial Bank Group (which comprise of the Bank and its seven subsidiaries and the associate) stood at Rs. 2.500 Tn. as at December 31, 2022 (Rs. 1.983 Tn. as at end 2021). Accounting for approximately 10.72% (2021 – 10.42%), 12.82% (2021 – 11.58%) and 12.56% (2021 – 11.82%) of sector loans and advances, deposits and assets, respectively, the Bank is the third largest bank overall in Sri Lanka, in terms of total assets, customer deposits and net loans & advances which stood at Rs. 2.426 Tn. (USD 6.610 Bn.), Rs. 1.914 Tn. (USD 5.216 Bn.) and Rs. 1.130 Tn. (USD 3.080 Bn.), respectively, as at the end of 2022 (Rs. 1.949 Tn. (USD 5.311 Bn.), Rs. 1.443 Tn. (USD 3.932 Bn.) and Rs. 1.015 Tn. (USD 2.765 Bn.), respectively, as at the end of 2021).

## Hundred and Three Year Legacy

The origins of the Bank stem back to 1920 when a financial institution began its operations in Chatham Street, Colombo, embarking on a journey that saw a bank with humble beginnings reaching the pinnacle of private sector banking operations in Sri Lanka. The Bank, initially known as the Eastern Bank, marks over a half-century of operations under its present name in 2022. The journey has been one of innovating in strategic directions, evolving the banking experience of stakeholders, to create personalised banking products, including digital-first platforms that are powered by a few clicks at best. With a total staff strength of 5,121 as at end 2022 (2021 – 5,072), the Bank serves over 3.5 million customers through a wide local and international network of branches, subsidiaries, agency arrangements, Business Promotion Officers, and correspondent banking relationships.

## Growing International Footprint

Commercial Bank is no longer an endemic bank but one that has consolidated an international regional presence, having built stable and innovative business operations in a gamut of locations. It began its expansion beyond Sri Lanka's shores with the acquisition of the Bangladesh operations of Crédit Agricole Indosuez in 2003, a pioneering presence as the first private sector bank to establish a branch operation outside the country. As of today, the overseas operations have expanded into the establishment of subsidiaries in the Maldives and Myanmar. The Bank anticipates that the strategic expansion of the banking ecosystem will include a wider geographical presence in the regional landscape of South Asia in the future, in line with its Vision given in the Inner Front Cover.

## Risk Profile

In April 2022, reflecting heightened near-term downside risk stemming from constrained access to foreign-currency funding and the resulting indications of stress experienced by the banks in the system, exacerbated by the sovereign's credit profile, Fitch Ratings Lanka Ltd. (Fitch) changed Commercial Bank's National Long-term Rating from "AA-(lka)/stable outlook" to "AA-(lka)/Rating Watch Negative" along with 12 other banks. In January 2023, following the sovereign downgrade and recalibration of Fitch's Sri Lanka National Rating Scale, Fitch downgraded the Bank's National Long-term Rating from "AA-(lka)/Rating Watch Negative" to "A(lka)/Rating Watch Negative" along with nine other banks. Meanwhile, the Bank's Bangladesh Operations' credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd. in June 2022 for the 12th consecutive year. The ratings reflect the Bank's intrinsic financial strength, the established domestic franchise as Sri Lanka's third-largest bank and the entrenched domestic deposit franchise that underpins the Bank's funding and liquidity profile.

## Diversification

The Bank's business is well-diversified across four main business segments – Personal Banking, Corporate Banking, Treasury, and International Operations. The International

Operations of the Bank, which accounted for 16.92% of consolidated assets as at December 31, 2022 (2021 – 12.83%) and 71.10% of consolidated profit before taxes for the year ended December 31, 2022 (2021 – 19.45%), covers operations in Bangladesh, the Maldives, Italy (under voluntary liquidation), and Myanmar. Besides geographical diversification, the Bank has successfully achieved a high level of diversification in its operations across many other parameters such as customer profile, currency, products and services portfolio, interest rate type, funding profile, maturity profile, economic sectors and the sources of revenue given on pages 62 and 63.

### Vibrant financial intermediation

Commercial Bank became the first private sector bank in Sri Lanka to have three key balance sheet indicators to surpass Rs. 1 Tn., having crossed Rs. 1 Tn. mark in assets, deposits and the loan book in 2016, 2019 and 2021, respectively. As a leader in financial intermediation, 78.92% of the total assets of the Bank are funded by customer deposits (2021 – 74.03%). The Bank's loans to deposits ratio has been over 70% on average for the past five years consecutively, reflecting a growth in loans commensurate with the growth in deposits. The Bank's asset quality is one of the best in the industry, while its Current Accounts and Savings Accounts (CASA) is the highest among the peer banks accounting for 38.36% of total deposits as at December 31, 2022 (47.83% of total deposits as at December 31, 2021).

### Capital position of the Bank

The Bank's Tier 1 Capital Ratio and Total Capital Ratio stood at 11.389% and 14.657%, respectively, as at December 31, 2022 (11.923% and 15.650%, respectively, as at December 31, 2021), compared to the regulatory minimum ratios of 10% and 14% applicable for the year. The Bank's growth has been prudent with gearing in terms of on-balance sheet assets as well as risk-weighted assets remaining at 11.91 times and 6.82 times, respectively, as of the end of 2022 (11.82 times and 6.39 times, respectively, as of the end of 2021). Demonstrating the strength of the franchise, the Bank's shares reported a book value of 0.31 times and a market capitalisation of Rs. 61.591 Bn. (USD 167.824 Mn.) among the banking sector on the CSE at year's end, the Bank is the 12th largest institution listed on the CSE overall.

### Ownership of the Bank

Of the 17,022 ordinary voting shareholders of the Bank at end of 2022, DFCC Bank PLC held 12.12% and entities related to the State, including Employees' Provident Fund, Employees' Trust Fund Board and Sri Lanka Insurance Corporation, collectively held 18.95% of Bank's shares. Mr Y S H I Silva (9.90%), Mr D P Peiris (7.71%), the International Finance Corporation (IFC) (7.11%), Melstacorp PLC (4.14%), CB NY S/A IFC Emerging Asia Fund LP (3.67%), CB NY S/A IFC Financial Institutions Growth Fund LP (3.67%), and Mr K D D Perera (3.67%), are the other major shareholders, holding a combined ownership stake of 39.87%. Notably, the Bank's foreign shareholders have a combined stake of 17.26% in ordinary voting shares as at end of 2022.

### Most awarded Bank


The heavily awarded and accoladed status of the Bank has made it the most awarded bank in the country, bearing testimony to its commitment towards good corporate governance. The Bank won 50 international awards and 11 local awards during the year under review. These included, among others, Best Bank in Sri Lanka by The Banker Magazine UK, Strongest Bank in Sri Lanka by The Asian Banker Magazine UK, Global Performance Excellence Award World Class by Asia Pacific Quality Organisation, and National Quality Award by Sri Lanka Standards Institute. Refer pages 34 and 35 for the details of awards and accolades won during the year.

# Strategic highlights

The Strategic Highlights for the year 2022 are organised around the Bank's four Strategic Imperatives given on page 59. While the Financial Highlights captures the key details of the Bank's financial performance, the Strategic Highlights encapsulates how this performance was achieved in the context of the Bank's long-term vision.

## PRUDENT GROWTH

- **Total assets of the Group** approach Rs. 2.5 Tn.
- **High level of diversification** in its income and portfolios across a multitude of parameters.
- Increased the **impairment provision** for the year 2022 to Rs. 71.462 Bn., an increase of 189.41%, the highest ever annual provision in the history of the Bank.
- The Bank's **deposit base grew by 32.66% Year-on-Year (YoY)** to Rs. 1.914 Tn., while the Bank's **CASA ratio** stood at 38.36% at end of 2022, the best in the Banking Sector.
- **Overseas operations** accounted for 16.9% of the assets and contributed to over 70% of the pre-tax profits of the Group.
- The Rs. 10 Bn. debenture issue further strengthened the Tier II capital base of the Bank, bridged maturity mismatches in the assets and liabilities, expanded the lending portfolio, especially in the SME segment and export-oriented industries **to support the national economy.**
- The Bank received two awards from IFC for its performance in **climate financing and environmental consciousness.**
- The Bank's Green Financing portfolio has **contributed to reduce 229,752.47 tCO$_2$e GHG emissions** by end 2022.
- Treasury navigated the challenging context by conducting derivative transactions, exploring opportunities for overseas expansions, expanding networking sessions, and launching an online platform for foreign exchange (FOREX) transactions to **augment the FOREX position** of the Bank.
- The Board approved a **Group Conduct Risk Management Policy Framework** to further strengthen risk management and corporate governance.

## CUSTOMER CENTRICITY

- Commercial Bank was declared the **largest SME lender** for 2021 as well, by the Ministry of Finance, Sri Lanka.
- In March 2022 commemorating International Women's Day, the Bank dedicated the first quarter of 2022 to its flagship **"*Anagi*" Women's Banking portfolio.**
- During the year 2022, the Bank conducted **capacity-building programmes** for 425 women entrepreneurs.
- **Women connected SMEs stand at 50% of the entire SME loan portfolio** of the Bank as of end 2022.
- The number of members of the **ComBank BIZ Club has grown to over 5,000, comprising 50% of the Bank's SME portfolio.**
- As per the CBSL instructions, the **Bank considered special moratoriums for loans for the value of Rs. 174.921 Bn.** of which Rs. 41.429 Bn. represented SMEs.
- The Bank which channels 18% of the country's export volumes, entered into a strategic partnership with the National Chamber of Exporters of Sri Lanka **to create another platform to extend financial solutions to exporters, with due emphasis on SMEs.**
- The **new and enhanced Bank's corporate website was launched** with access to content in English, Sinhala and Tamil, an ultra-smooth interface with interactive multimedia material, enhanced navigation, experience-customisation, smarter search options and tools, and resources that make it extra user-friendly and informative.
- The Bank widened its **senior citizen account holder base** by relaunching its *"Udara"* Senior Citizens Account with new features and special interest rates and offering more rewards.
- The Bank launched the **"*Dirishakthi* Value Chain Development Programme"** to support micro-entrepreneurs.
- The Bank enabled **"Visa Direct" and "MasterCard Send" card-based fund transfer facilities for the first time in Sri Lanka,** pushing the boundaries of customer service and experience through innovative products and services.
- Debit and prepaid cardholders are **enabled to transfer funds to any locally-issued Visa and MasterCard Debit, Credit, or Prepaid card through the Bank's ATMs, CRMs, and Q+ Payment App,** delivering enhancement of functionality and convenience.
- The Bank **became the first Sri Lankan Bank to introduce card acceptance through Android smartphones,** allowing its merchants to conveniently and cost effectively accept card payment transactions.

## LEADING THROUGH INNOVATION

- The Bank's **Core Banking server infrastructure was upgraded to the state-of-the-art IBM POWER 10 technology** with an investment of Rs. 1.2 Bn., enhancing the performance, security, and reliability of the core banking system.
- The Bank was the **largest facilitator of CEFT Transactions in Sri Lanka** with over 27 Mn. transactions during the year 2022.
- The Bank's **digital banking retail customer base grew by 49% YoY,** and its digital banking business customer base grew to over 43,000 users.
- Number of existing **customers migrated to online banking** increased to over 265,000.
- **"Flash",** the all-in-one digital banking solution won the award for the **"Digital Banking Initiative of the Year" in Sri Lanka** at the 2021 Asian Banking and Finance awards.
- The personal loan request feature on ComBank Digital which facilitates customers to request a personal loan without visiting a bank branch, was adjudged the **"Best Frictionless Credit Evaluation Initiative" in Sri Lanka by the Asian FinTech Academy** at the "Asian Digital Finance Forum and Awards".
- A **dedicated IT monitoring team was convened** to provide, faster response and resolution for IT system issues and take proactive measures to increase the availability of IT services, 24x7.
- The **operational efficiency and the service level agreements were enhanced** by setting up a Help Desk operating 365 days a year.
- **Three machine learning predictive analysis models** (Transaction analysis, Sentiment analysis, and Macroeconomic analysis) were launched **to improve Data Analytics and Machine learning** to identify and target potential borrowers for cross-selling and up-selling opportunities.

## OPERATIONAL EXCELLENCE

- Achieved improvements in **most of the productivity and efficiency ratios** recording the best performance over the past five years.
- Transformed strategically to ensure Bank's readiness **to offer uninterrupted services** to its stakeholders through the implementation of the Business Continuity Management framework.
- **Continued to focus on preserving the quality of the loan book, managing interest rates, and liquidity** while improving compliance to minimise reputational risk.
- **Reviewed and revised the disaster recovery plans** while managing the footprint of COVID-19 and associated phenomena.
- Used **Early Warning Systems** extensively with a greater emphasis on real-time data and machine learning models.
- **Continued to engage in cordial relations with the CBEU,** with negotiations fueling dialogue between the two entities, provisioning two-way rewards to the Bank as well as the employee union.
- **Provided a range of training and development schemes** to ensure that the employees are custodians of lifelong learning and strategic self-development that can be vehicles of self-actualisation.
- **Accorded high emphasis to employee morale and safety** in a disruptive environment to cushion employee livelihoods, health, and well-being, while championing the collective strength of the employee base.

# Financial highlights

Table – 01

| | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | Change (%) | 2022 | 2021 | Change (%) |
| **Results for the year – (Rs. Bn.)** | | | | | | |
| Gross income | 280.387 | 163.675 | 71.31 | 275.444 | 160.886 | 71.20 |
| Operating profit before taxes on financial services | 28.430 | 38.801 | (26.73) | 26.491 | 37.810 | (29.94) |
| Taxes on financial services | 3.921 | 5.845 | (32.91) | 3.892 | 5.809 | (33.00) |
| Profit before taxation (PBT) | 24.505 | 32.957 | (25.65) | 22.598 | 32.001 | (29.38) |
| Income tax expense/(reversal) | 0.106 | 8.667 | (98.78) | (0.371) | 8.395 | (104.42) |
| Profit after tax (PAT) | 24.399 | 24.290 | 0.45 | 22.970 | 23.606 | (2.70) |
| Gross dividends | 5.579 | 8.957 | (37.71) | 5.579 | 8.957 | (37.71) |
| **Position at the year end – (Rs. Bn.)** | | | | | | |
| Shareholders' funds | 208.865 | 167.475 | 24.71 | 203.699 | 164.894 | 23.53 |
| Financial liabilities at amortised cost – due to depositors | 1,977.744 | 1,472.640 | 34.30 | 1,914.359 | 1,443.093 | 32.66 |
| Financial assets at amortised cost – loans and advances to other customers (Gross) | 1,246.170 | 1,094.931 | 13.81 | 1,219.667 | 1,078.685 | 13.07 |
| Total assets | 2,499.554 | 1,983.491 | 26.02 | 2,425.798 | 1,949.213 | 24.45 |
| **Information per Ordinary Share (Rs.)** | | | | | | |
| Earnings (Basic) | 19.21 | 19.41 | (1.03) | 18.53 | 19.04 | (2.68) |
| Earnings (Diluted) | 19.21 | 19.41 | (1.03) | 18.53 | 19.04 | (2.68) |
| Dividends – Cash | – | – | – | – | 4.50 | (100.00) |
| Dividends – Shares | – | – | – | 4.50 | 3.00 | 50.00 |
| Net assets value | 168.47 | 140.24 | 20.13 | 164.30 | 138.08 | 18.99 |
| Market value at the year end – Voting | N/A | N/A | – | 50.20 | 79.30 | (36.70) |
| Market value at the year end – Non-voting | N/A | N/A | – | 41.30 | 72.00 | (42.64) |
| **Key financial ratios** | | | | | | |
| Return on average assets (ROA) – After tax (%) | 1.09 | 1.30 | (0.21) | 1.05 | 1.28 | (0.23) |
| Return on average shareholders' funds (ROE) – After tax (%) | 12.97 | 14.87 | (1.90) | 12.46 | 14.66 | (2.20) |
| Financial intermediation margin (%) | N/A | N/A | – | 12.59 | 8.73 | 3.86 |
| Total impairment provision as a % of gross loans and advances (%) | 7.28 | 5.97 | 1.31 | 7.32 | 5.94 | 1.38 |
| Cost of risk on loans and advances (%) | 1.79 | 1.37 | 0.42 | 1.80 | 1.35 | 0.45 |
| Impaired loans (Stage 3) ratio (%) | – | – | – | 5.25 | 3.85 | 1.40 |
| Impairment (Stage 3) to stage 3 loans ratio (%) | – | – | – | 39.60 | 42.76 | (3.16) |
| Price earnings – ordinary voting shares – (times) | N/A | N/A | – | 2.71 | 4.16 | (1.45) |
| Dividend yield – ordinary voting shares (%) | N/A | N/A | – | 8.96 | 9.46 | (0.50) |
| Dividend cover on ordinary shares (times) | N/A | N/A | – | 4.12 | 2.54 | 1.58 |
| **Statutory ratios** | | | | | | |
| Liquid assets ratio (minimum requirement – 20%) | | | | | | |
| Domestic Banking Unit (DBU) | N/A | N/A | – | 35.01 | 38.73 | (3.72) |
| Off Shore Banking Unit (OBC) | N/A | N/A | – | 32.37 | 36.39 | (4.02) |
| Consolidated (Sri Lankan operations) | N/A | N/A | – | 35.88 | N/A | – |
| **Capital adequacy ratios (under Basel III) (%)** | | | | | | |
| Common equity tier I capital ratio (minimum requirement – 8.500%) | 11.341 | 12.049 | (0.708) | 11.389 | 11.923 | (0.534) |
| Tier I capital ratio (minimum requirement – 10.000%) | 11.341 | 12.049 | (0.708) | 11.389 | 11.923 | (0.534) |
| Total capital Ratio (minimum requirement – 14.000%) | 14.507 | 15.696 | (1.189) | 14.657 | 15.650 | (0.993) |
| **Liquidity coverage ratio (%)** | | | | | | |
| Rupee – (minimum requirement – 2022 – 90%, 2021 – 100%) | N/A | N/A | – | 405.91 | 425.97 | (20.06) |
| All currency – (minimum requirement – 2022 – 90%, 2021 – 100%) | N/A | N/A | – | 293.91 | 242.52 | 51.39 |
| Net stable funding ratio – (minimum requirement – 2022 – 90%, 2021 – 100%) | N/A | N/A | – | 173.58 | 157.47 | 16.11 |
| **Gearing ratio (%)** | | | | | | |
| Leverage ratio (minimum requirement – 3%) | 5.66 | 5.44 | 0.22 | 5.56 | 5.29 | 0.27 |

## Financial Goals and Achievements – Bank

| Financial Indicator | Goal | Achievement | | | | |
|---|---|---|---|---|---|---|
| | | 2022 | 2021 | 2020 | 2019 | 2018 |
| Return on average assets (ROA) – After Tax (%) | Over 2% | 1.05 | 1.28 | 1.05 | 1.27 | 1.43 |
| Return on average shareholders' funds (ROE) – After Tax (%) | Over 20% | 12.46 | 14.66 | 11.28 | 13.54 | 15.56 |
| Growth in income (%) | Over 20% | 71.20 | 7.46 | 0.68 | 7.72 | 20.72 |
| Growth in profit for the year (%) | Over 20% | (2.70) | 44.17 | (3.83) | (2.96) | 5.81 |
| Growth in total assets (%) | Over 20% | 24.45 | 12.27 | 25.15 | 6.43 | 14.00 |
| Dividend per share (DPS) (Rs.) | Over Rs. 5.00 | 4.50 | 7.50 | 6.50 | 6.50 | 6.50 |
| **Capital Adequacy Ratios** | | | | | | |
| Common Equity Tier I Capital Ratio (Minimum Requirement – 8.500%) | 2% buffer over the regulatory minimum requirement | 11.389 | 11.923 | 13.217 | 12.298 | 11.338 |
| Tier I Capital Ratio (Minimum Requirement – 10.000%) | | 11.389 | 11.923 | 13.217 | 12.298 | 11.338 |
| Total Capital Ratio (Minimum Requirement – 14.000%) | | 14.657 | 15.650 | 16.819 | 16.146 | 15.603 |

# Non-financial highlights

Table – 02

| Sustainability pillar | Capital/Indicator | Unit of measure/ Description | 2022 | 2021 | Impacted outcome |
|---|---|---|---|---|---|
| **Sustainable banking** | **Intellectual capital** | | | | |
| | Brand Equity (Brand Finance) | Rs. Bn. | 46.700 | 43.657 | Customer centricity |
| | Brand Ranking (Brand Finance) | Number | 3 | 4 | |
| | Compliance with industry standards- ISO 27001:2103, PCI-DSS, Baseline Security Standards | Compliance | Yes | Yes | • Prudent growth<br>• Stability and resilience<br>• Operational excellence |
| | Key digital banking initiatives/ products introduced during the year | Type of innovation | Flash toolkit | First bank in Sri Lanka to integrate with the Import and Export Control Department for online payments | • Leading through innovation,<br>• Financial Inclusion,<br>• Sustainable products and services |
| | | | Wearable banking through *Flash* | Innovative features for flash digital account | |
| | | | *Arunalu* children's savings account in foreign currency | Becoming the first bank to launch Viber Banking in Sri Lanka | |
| | | | *Millionaire Investment Plan* in foreign currency | Automation of the process of early Redemption of eFD | |
| | | | Personal loan request feature on *ComBank Digital* | The new "*Q+ Online Pay*" facility was launched | |
| | Listed in Top 1000 Banks in the World | Number | For 12 consecutive years | For 11 consecutive years | Stability and resilience |
| | Employees serving for > 20 years | Number | 854 | 797 | Operational Excellence |
| | Number of existing customers migrated to online banking channels as at the end of the year | Number | 265,183 | 212,806 | • Responsible finance<br>• Financial Inclusion |
| | New customer acquisition through digital channels | Number | 9,539 | 12,491 | |
| | Total number of financial transactions initiated through digital channels during the year | Number | 49,086,590 | 37,841,881 | |
| | ComBank digital customer base as at the end of the year | Number | Over 800,000 | Over 500,000 | |
| | **Social and network capital** | | | | |
| | Bank's position as a lender to the SMEs | Ministry of Finance Data | Largest SME lender in 2021 | Largest SME lender in 2020 | |
| | Facilities subjected to SEMS screening during the year | Number | 11,792 | 9,938 | |
| | Adoption of IFC Performance Standards | Compliance | Yes | Yes | |
| **Responsible organisation** | **Human capital** | | | | |
| | Employment opportunities created at the end of the year | Number | 5,121 | 5,072 | • Green and safe workplace<br>• Job Security<br>• Training and development<br>• Empowered and engaged staff |
| | New recruits during the year | Number | 369 | 226 | |
| | Investment in training and development during the year | Rs. Mn. | 65.375 | 22.955 | |
| | Total training hours during the year | Hours | 151,448 | 79,928 | |

| Sustainability pillar | Capital/Indicator | Unit of measure/ Description | **2022** | 2021 | Impacted outcome |
|---|---|---|---|---|---|
| | **Natural capital** | | | | |
| | Reforestation | Area | **Initiated the reforestation of a 100-hectare degraded habitat belonging to the Kandegama forest in Polonnaruwa District** | – | |
| | Mangrove restoration | Number of plants<br>Coverage meters | **7,000 plants**<br>**1,250 meters** | – | |
| | Paper recycled | Kgs | **189,800** | 143,060 | |
| | Green financing portfolio | Rs. Mn. | **16,476** | 15,585 | • Environmental engagement<br>• Green processes and facilities<br>• Managing the footprint<br>• Secure social license |
| | Contribution of Green finance portfolio for reduction of $CO_2$ emissions to the atmosphere as at December 31 | $CO_2$ Tonnes. | **229,752.47** | 225,847.33 | |
| | Energy consumption | Gigajoules | **38,416** | 42,906 | |
| | Solar power generated as a % of energy consumption | | **4.38%** | 2.35% | |
| | *Total carbon footprint* | | | | |
| | Direct (Scope 1) GHG emissions | $CO_2$ Tonnes | Pending | 1,203 | |
| | Energy indirect (Scope 2) GHG emissions | $CO_2$ Tonnes | Pending | 7,144 | |
| | **Social and network capital** | | | | |
| **Community Sustainability** | IT labs established in rural schools at the end of the year | Total number | **280** | 253 | |
| | Students benefited from IT labs | Total number | **Approximately 40,000** | Approximately 35,000 | |
| | STEM classrooms in schools at the end of the year | Total number | **140** | 97 | |
| | Students benefited from STEM classrooms as at the end of the year | Total number | **Over 50,000** | | |
| | Math labs established in rural schools at the end of the year | Total number | **85** | 41 | |
| | Computer coding clubs as at the end of the year | Number of schools | **In 100 schools** | In 100 schools | |
| | Supported the Vocational Training Authority to enroll students from government schools and providing jobs as at the end of the year | Number of jobs provided | **Over 280** | Over 200 | • Social engagement<br>• Empowered communities<br>• Affordable and inclusive finance Secure social license |
| | MSME participants in Financial literacy programmes conducted by the Bank | Total number | **12,699** | 11,859 | |
| | Members in ComBank BIZ Club | Total number | **5,243** | 4,807 | |
| | Participants in Capacity-building programmes for women entrepreneurs | Total number | **425** | 278 | |
| | Donation of critical medical equipment and infrastructure facilities to government hospitals | Value and Number of hospitals | **Rs. 17.5 Mn. and 8 hospitals** | Rs. 26.3 Mn. and 25 hospitals | |

# A snapshot of the Bank's profile

**Rs. 2.426 Tn.**
(2021 – Rs. 1.949 Tn.)
**Total assets**

**Rs. 1.914 Tn.**
**Customer deposits**
(2021 – Rs. 1.443 Tn.)

**Financial Intermediation** ↕ **Maturity Transformation**

**Rs. 1.220 Tn.**
**Gross loans and advances to other customers**
(2021 – Rs. 1.079 Tn.)

**Over 3.5 Mn.**
**Customers**

**5,121**
(2021 – 5,072)
**Employees**

**289**
(2021 – 287)
**Branches**

**934**
(2021 – 921)
**ATMs**

**58**
(2021 – 60)
**Correspondent Banks**

**8**
(2021 – 8)
**Subsidiaries/Associate**

## Profitability

Profit after taxation — -2.7%
- 2022 – Rs. 22.970 Bn.
- 2021 – Rs. 23.606 Bn.

Earnings per share (Basic/Diluted) — -2.7%
- 2022 – Rs.18.53
- 2021 – Rs.19.04

Return on Assets (ROA) — -23 bps
- 2022 – 1.05%
- 2021 – 1.28%

Return on Equity (ROE) — -220 bps
- 2022 – 12.46%
- 2021 – 14.66%

Interest margin — +23 bps
- 2022 – 3.74%
- 2021 – 3.51%

## Credit Quality

Cost of risk of loans and advances — 45 bps
- 2022 – 1.80%
- 2021 – 1.35%

Provision cover — +138 bps
- 2022 – 7.32%
- 2021 – 5.94%

Open Credit Exposure Ratio — 908 bps
- 2022 – 34.41%
- 2021 – 25.33%

Impaired Loans (Stage 3) Ratio — -140 bps
- 2022 – 5.25%
- 2021 – 3.85%

Impairment (Stage 3) to Stage 3 Loans Ratio — -316 bps
- 2022 – 39.60%
- 2021 – 42.76%

## Stability

Tier 1 Ratio (Minimum Req. 10%) — -534 bps
- 2022 – 11.389%
- 2021 – 11.923%

Total Capital Ratio (Minimum Req. 14%) — -993 bps
- 2022 – 14.657%
- 2021 – 15.650%

Net Stable Funding Ratio (Minimum Req. 90%) — +1,611 bps
- 2022 – 173.58%
- 2021 – 157.47%

Leverage Ratio (Minimum Req. 3%) — +27 bps
- 2022 – 5.56%
- 2021 – 5.29%

## Liquidity

Statutory liquid assets ratio (Consolidated) – (Minimum Req. 20%)
- 2022 – 35.88%
- 2021 – N/A

Liquidity coverage ratio (All currencies) (Minimum Req. 90%) — +5,139 bps
- 2022 – 293.91%
- 2021 – 242.52%

Liquidity coverage ratio (Rupee)(Minimum Req. 90%) — -2,006 bps
- 2022 – 405.91%
- 2021 – 425.97%

## Share Valuation

Net Assets Value per ordinary share (NAV) — +19.0%
- 2022 – Rs. 164.30
- 2021 – Rs. 138.08

Market Capitalization — -34.6%
- 2022 – Rs. 62 Bn.
- 2021 – Rs. 94 Bn.

Price to Book Value — -0.26 times
- 2022 – 0.31 times
- 2021 – 0.57 times

**A(lka)**
**Rating Watch Negative**
Fitch Ratings Lanka Ltd.
2021: AA–(lka)

Fitch Ratings

**1st in Market Capitalisation**
Ranked 1st in the Banking sector on the CSE

CSE COLOMBO STOCK EXCHANGE

**Top 1000 Banks**
Only Sri Lankan bank to be ranked for the 12th consecutive year

The Banker TOP 1000 WORLD BANKS 2022

# Our journey over 100 years

## 1920 – 1979

### 1920
- Eastern Bank Ltd. (EBL) opens a Branch in Chatham Street

### 1957
- EBL was acquired by Chartered Bank

### 1969
- Commercial Bank of Ceylon Ltd. (CBC), incorporated with EBL holding a 40% stake

### 1971
- Business of EBL was completely integrated with Chartered Bank

### 1972
- First two branches opened in Galewela and Matale

### 1973
- CBC acquired Galle, Jaffna and Kandy branches of Mercantile Bank Ltd.

### 1979
- Offshore Banking Centre formed

## 1980 – 1999

### 1980
- Commercial Development Company (CDC) formed to construct Head Office Building for CBC with 40% equity participation

### 1984
- Head Office moved to new premises at No. 21, Sir Razik Fareed Mawatha, (formerly Bristol Street), Colombo 01

### 1987
- EBL changed its name to Standard Chartered (UK) Holdings Ltd.

### 1990
- Introduced ATM facilities to customers

### 1993
- Introduced core banking software-International Comprehensive Banking System (ICBS)

### 1996
- Increased shareholding in CDC to 94.5% through a share swap

### 1997
- Standard Chartered Bank sold its 40% stake in the Bank

### 1998
- First 365 Day Branch opened in Colombo 07
- All branches linked to ICBS (except Jaffna)

## 2000 – 2010

### 2000
- Launched Internet Banking

### 2001
- Opened the 100th branch at Kaduruwela

### 2003
- Acquired operations of Credit Agricole Indosuez in Bangladesh

### 2005
- Raised USD 65 Mn. syndicated loan, becoming the 1st non-sovereign corporate in Sri Lanka to source external funding

### 2006
- Issued USD 10 Mn. bond, becoming the first indigenous bank to do so

### 2008
- First Sri Lankan bank to be ranked among the Top 1000 Banks in the World

### 2009
- First Sri Lankan Bank to be certified CMMi

## 2011 – 2015

### 2011
- Commenced "Sharia" compliant Islamic Banking
- Opened 200th branch in Kataragama
- Opened an exclusive "Elite" Branch at Colombo 07 for high net worth customers
- Reached milestone 500th ATM located at the Maradana railway station

### 2012
- Raised USD 65 Mn., from the International Finance Corporation (IFC)
- Launched an exclusive Savings Account for Women named "Anagi"

### 2013
- Opened "24-Hour Automated Banking Centre" at Ward Place
- Raised a 10-year subordinated debt of USD 75 Mn. from IFC

### 2014
- Bank acquired 100% stake of Indra Finance Ltd.
- Became the first Sri Lankan Bank to be granted a license by the Central Bank of Myanmar to operate a Representative Office

### 2015
- Indra Finance, a fully-owned subsidiary of CBC, renamed Serendib Finance Ltd.

## 2016

- Commenced Commercial operations of Commex Sri Lanka S.R.L. Italy, our fully owned subsidiary
- Opened Commercial Bank of Maldives Private Limited, 2nd foreign subsidiary with a 55% stake
- The Bank became a Trillion Rupee Asset company

## 2017

- Commercial Bank of Maldives opened its second branch in Hulhumalé
- CBC Myanmar Microfinance Company Limited., was established as the second fully-owned subsidiary of CBC outside Sri Lanka in Nay Pyi Taw, Myanmar

## 2018

- The second fully-owned subsidiary of CBC outside Sri Lanka, CBC Myanmar Microfinance Company Limited was opened in Nay Pyi Taw
- Launched the country's first fully-automated cheque deposit machine at City Office Branch in York Street Colombo
- Introduced Flash Digital Bank Account

## 2019

- One of the leading mobile payment solutions in China, "WeChat Pay" acceptance launched in Sri Lanka for the first time by CBC with a partnership between Tenpay Payment Technology Ltd.
- Became PCI-DSS (Payment Card Industry Data Security Standard) certified
- "Flash" becomes Sri Lanka's first multilingual Digital Banking App
- Launched ComBank Q+ Sri Lanka's first QR based payment app under LANKAQR
- Launched "Yasasa" savings account exclusively for pensioners
- Enabled Dynamic Currency Conversion at ATMs for foreign Visa Cards
- Serendib Finance Ltd., a fully-owned subsidiary of CBC, was renamed CBC Finance Ltd.
- Deposits surpassed Rs. 1 Tn. mark

**2016 – 2019**

## 2020

- Celebrated 100 years of banking in Sri Lanka with a series of events including a staff gathering of unprecedented scale
- Private placement of shares with the IFC for USD 50 Mn.
- Launched "ComBank Digital" powered by Fiserv, the US-based global provider of financial services technology
- Commenced a project to donate smart STEM classes to 100 schools to mark the Bank's centenary
- The Bank was declared the "Strongest Bank Brand" in Sri Lanka by Brand Finance
- Became Sri Lanka's first carbon-neutral bank

## 2021

- UK's CDC Group provided USD 50 Mn. to bolster SME lending and climate projects
- First private sector bank to achieve the feat of Loan book surpassing Rs. 1 Tn., joining Assets and Deposits
- Named once again among global giants in banking, becoming the only Sri Lankan bank to be ranked in the "Top 1000 World Banks", for the 11th consecutive year

## 2022

- Introduced breakthrough "Tap to Phone" payments acceptance.
- Under the latest environment-linked commitment, the Bank undertook to reforest a 100-hectare swath of degraded habitat belonging to the Kandegama forest in the Dimbulagala range of the Polonnaruwa District
- Became the only Bank in Sri Lanka to win National Quality Award from Sri Lanka Standards Institution (SLSI)
- Opened the 269th Branch at Kirillawala
- Won 50 international awards including the Best Bank Sri Lanka – Bank of the Year awards from the Banker – UK

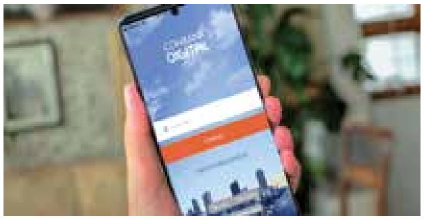
Refer pages 20 to 25 for the Key Events of the Year

**2020 – 2022**

# Key events of the year

## January

### "ComBank Digital" available on Huawei App Gallery



Huawei mobile phones users can directly download "ComBank Digital" – Commercial Bank's single omni-channel digital banking application for free.

### ComBank unveils "*Anagi* Women's Banking" with exclusive new products and services

The Bank unveiled "*Anagi* Women's Banking" with a new loan scheme under an expanded portfolio of initiatives designed exclusively to support the aspirations of women.

### ComBank named "Most Sustainable Bank in Bangladesh"

Commercial Bank Bangladesh was adjudged the "Most Sustainable Bank in Bangladesh" for 2021.

## February

### ComBank launches scheme with SLII to finance professional studies in Insurance

The Bank collaborated with the Sri Lanka Insurance Institute (SLII), to provide special educational loans and easy payment plans to the Institute's members, in support of their career aspirations.

### ComBank supports traditional rice producers in Kokkadichcholai

Farmers in Kokkadichcholai, Batticaloa, received financial and technical support and equipment to facilitate their traditional trade of rice production, as the latest beneficiaries of the Bank's Dirishakthi Value Chain Development Programme.

### ComBank joins "Lanka Remit" – the National Remittance Mobile App

The Bank announced that it has joined the national remittance mobile application "Lanka Remit" as a participating bank, to support the Central Bank's latest initiative to facilitate inward remittances to the country.

### ACCA declares ComBank Overall Winner & Best Among Banks for Sustainable Reporting

The Bank won the overall winner award for its Annual Report 2020 which was also adjudged the best in the Banking sector at the Sri Lanka Sustainability Reporting Awards presented by the Association of Chartered Certified Accountants (ACCA) Sri Lanka.

### ComBank crowned CSR Brand of Year by SLIM

The CSR Brand of the Year title presented by the Sri Lanka Institute of Marketing (SLIM) affirms not just the value and impact of the Bank's nationally-scaled efforts to elevate IT literacy levels in Sri Lanka, but the strategic alignment the Bank has achieved between its own vision and mission, its CSR initiatives and the country's development goals.

## March

### CPM ranks ComBank in Top 10 for "Best Management Practices" in COVID hit 2020-21


The Institute of Chartered Professional Managers of Sri Lanka (CPM) ranked the Bank among the 10 best managed companies in Sri Lanka in the two years affected by the global pandemic.

### ComBank supports VTA's Apparel Technician Course with donation of computers

The Bank recently donated new computers and accessories to the Vocational Training Authority of Sri Lanka (VTA), to support the conduct of courses for the Apparel Design Technician (NVQ Level 4) qualification.

### ComBank offers career guidance to female undergraduates of Colombo University

Shattering the glass ceiling, career strategies and entering into entrepreneurship were among the focal points of a programme conducted by the Bank for a group of female undergraduates of the University of Colombo (UoC) in commemoration of International Women's Day.

## April

### Commercial Bank Bangladesh redefines online banking with omni-channel "CBC Digital"

Commercial Bank Bangladesh transformed the online banking experience with the launch of "CBC Digital" – the Bank's single omni-channel online banking platform.

### Activation in a flash: ComBank innovates with Digital KYC procedure for "Flash" accounts

An innovative video call identity verification feature has been introduced by the Bank to its ground-breaking digital bank account "Flash", making it possible for an account to be opened, activated and operated without ever visiting a bank branch.

### ComBank wins Gold as Best ATM Enabler at LankaPay Technnovation Awards


The Bank won the Gold award as the "Best Common ATM Enabler of the Year" at the 2022 LankaPay Technnovation awards.

### ComBank Digital wins AFTA award for "Best Frictionless Credit Evaluation Initiative"

A facility provided by the Bank for personal loans to be applied for online, was adjudged the 'Best Frictionless Credit Evaluation Initiative' in Sri Lanka by the Asian FinTech Academy (AFTA).

### ComBank ranked Strongest Bank Brand in Sri Lanka for 3rd successive year

The Bank was ranked as the "Strongest Bank Brand" in Sri Lanka for the third consecutive year in the 2022 report on the country's most valuable and strongest brands by Brand Finance.

### ComBank offers WhatsApp and Viber Banking services in Sinhala, Tamil and English

The Bank enabled trilingual access to both its WhatsApp Banking and Bank with ComBank on Viber services, another first in Sri Lanka.

### ComBank's "Dirishakthi" scheme assists tea growers in Bandarawela & Deniyaya

The Bank extended financial and technical support to over 500 tea growers attached to four tea societies in Bandarawela and Deniyaya under the latest Dirishakthi Value Chain Development Programme.

## May

### ComBank adjudged "Best Corporate Bank" & "Best Retail Bank" in Sri Lanka

The Bank won the titles of "Best Retail Bank Sri Lanka 2022" and "Best Corporate Bank Sri Lanka 2022" at the annual awards of the UAE-based Global Business Review magazine.

### Commercial Bank appoints Mr Sanath Manatunge as MD/CEO

The Bank announced the appointment of Chief Operating Officer Mr Sanath Manatunge as Managing Director and CEO and Mr Sellathurai Prabagar as Chief Operating Officer effective May 12, 2022.

### ComBank Digital enables real-time online payments to SLSI in another first

The Commercial Bank of Ceylon became the first bank in Sri Lanka to enable online payments to the Sri Lanka Standards Institution (SLSI)by linking the institution to "ComBank Digital", making it possible for customers to pay their fees to SLSI from anywhere and at any time.

### ComBank's *"Anagi"* partners with insurance companies to offer affordable insurance to female customers

The Bank partnered with several insurance companies to offer special Life and General insurance products with unmatched low premium rates exclusively for women customers, under the Bank's "*Anagi* Women's Banking" portfolio.

### Q+ Payment App enables payment of dues on credit cards of other banks

Users of Commercial Bank of Ceylon's popular Q+ Payment App can settle the outstanding due on credit cards issued by other banks via the in-app Bill Payments option, in addition to settling dues on credit cards issued by the Bank.

## June

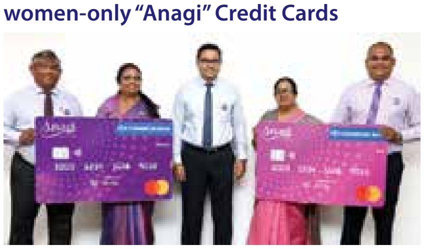
### ComBank to widen Senior Citizen account base with relaunch of "Udara"

The Bank re-launched its *"Udara"* Senior Citizens Account with new features and special interest rates to widen the account holder base and to offer more rewards to this customer segment.

### ComBank enables Senkadagala Finance to be first local finance co. to activate EMV 3DS on Visa cards

The Bank enabled Senkadagala Finance PLC to become the first finance company in Sri Lanka to activate EMV 3DS fraud prevention technology in the authentication of Visa card transactions of the latter's customers.

### ComBank breaks new ground with women-only "Anagi" Credit Cards



The Anagi Credit Card is another addition to the extensive product offering of its Anagi Women's Banking portfolio

### ComBank clinches two titles at FinanceAsia Country Awards 2022

The Bank was once again crowned the "Best Bank in Sri Lanka", as well as the 'Best Sustainable Bank in Sri Lanka' in 2022 at FinanceAsia's flagship Country Awards .

### Flash Digital Account teams up with online pharmacy Flash Health for convenient payments

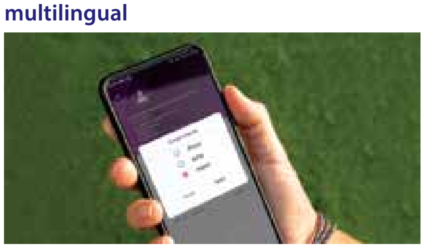
Flash Digital Bank Account was linked as a convenient mode of payment, to the revolutionary online pharmacy Flash Health App to facilitate flash-fast home delivery of medicines to users.

## July

### ComBank ranked among world's Top 1000 banks for 12th consecutive year

The globally-respected UK magazine "The Banker" once again included the Commercial Bank of Ceylon in its prestigious "Top 1000 World Banks" ranking, making Commercial Bank the only Sri Lankan bank to be ranked among the elite global giants in banking for 12 consecutive years.

### ComBank's pioneering ePassbook goes multilingual



"ComBank ePassbook" – Sri Lanka's first digital passbook – was made available in Sinhala and Tamil in addition to English, to further encourage digital banking habits and improve the customer experience.

### ComBank and CISCO help prepare over 2,000 students for careers in IT

More than 2,000 young Sri Lankans successfully completed a selection of IT courses offered by the CISCO Networking Academy, as a result of a collaboration between the Academy and the Commercial Bank of Ceylon.

### ComBank launches *"Arunalu"* Foreign Currency Savings Account for children

A timely opportunity to save for children in foreign currency has been unveiled by the Bank with the launch of the "Arunalu" Foreign Currency Minor's Savings Account.

### ComBank wins coveted double at Asiamoney Banking awards

The Bank won two coveted international awards – "Best Bank for Small and Medium Enterprise (SME) Banking" and "Best Bank for Environmental, Social and Governance (ESG)" at the awards event of the respected Asiamoney magazine.

### ComBank launches "Forex Plus" Foreign Currency FD scheme

The Bank launched a special Foreign Currency Fixed Deposit (FD) scheme in a further response to the requirement to attract investments from foreign sources.

## August

### ComBank adjudged "Best Engaging Overall Cards Base" by Daraz for 3rd consecutive year

The Bank was adjudged the "The Best Engaging Overall Cards Base" for the third consecutive year at the "Payment Partner Performance Awards 2022" hosted by Daraz, South Asia's largest e commerce platform.

## ComBank offers certificate course for women entrepreneurs with PIM

The Bank launched a ground-breaking certificate course in SME skills development exclusively for women entrepreneurs, in collaboration with the Postgraduate Institute of Management (PIM) affiliated with the University of Sri Jayewardenepura.

## LMD ranks ComBank the Most Respected Bank in Sri Lanka for 18th year

The Bank was declared the Most Respected Bank in Sri Lanka for the 18th consecutive year and has retained its ranking as the fourth Most Respected corporate entity in the country overall, in the 2022 'Most Respected Entities in Sri Lanka' rankings published by the LMD magazine.

## ComBank revolutionises Sri Lankan banking with "wearable banking" via Flash Digital Account


The Bank scaled new heights in digital innovation, becoming the first bank in Sri Lanka to take banking to the realm of wearable technology with the introduction of Flash Wearable Banking

## ComBank ranked Sri Lanka Market Leader in "CSR" & "SME Banking" by Euromoney

The Bank was ranked as "Market Leader" in Sri Lanka in Corporate Social Responsibility (CSR) and SME Banking under the Euromoney Market Leaders 2022 Accreditation.

## Combank.lk becomes top "Banking and Finance" website in Sri Lanka

The corporate website of the Bank was recognised as the top "Banking and Finance" website in the country at the BestWeb.lk 2022 competition hosted by the LK Domain Registry. The Bank won the Silver – the highest award presented in its category.

### September

## ComBank announces 3rd *"Arunalu Siththam"* art competition for young Sri Lankans

Arunalu Siththam
Children's Art Competition
2022

The Bank announced that the Bank's popular children's art competition *"Arunalu Siththam"* is back for a third year, extending an invitation to young Sri Lankans countrywide to express themselves through their artistic talents.

## ComBank's effort to shape digital Sri Lanka reaches landmark with 250th IT lab donation

The Bank donated its 250th IT Lab to a school in Maharagama, reaching a milestone in the Bank's flagship community initiative to take digital literacy to the grassroots in support of national development goals.

## ComBank presented prestigious dual awards by Asiamoney


The Bank was presented the awards for "Best Bank for Small and Medium Enterprise (SME) Banking" and "Best Bank for Environmental, Social and Governance (ESG)".

## ComBank once again the highest-ranked bank in "LMD 100"

The Bank was once again made the highest-ranked bank in the latest edition of the "LMD 100" and is the only bank among the Top 10 companies on this prestigious list widely considered Sri Lanka's version of the Fortune 500.

## ComBank introduces breakthrough "Tap to Phone" payments acceptance

The Bank became the first Sri Lankan Bank to introduce card acceptance through Android smartphones, allowing its merchants to conveniently and cost effectively accept card payment transactions.

### October

## ComBank & ITN treat children to a day of fun at Leisure World

More than 5000 children were treated to a fun-filled day at the Leisure World theme park by the Bank in partnership with ITN to celebrate World Children's Day, observed in Sri Lanka annually on October 01.

## ComBank launches Middle Management Development Programmes

The Bank launched a Middle Management Development Programme to enhance the skills and competencies of employees in this segment and to enable them to achieve their professional growth goals.

### ComBank wins "World Class Award" at the Global Performance Excellence Awards presented by Asia Pacific Quality Organisation

The Bank was recognised as a role model with a Global Performance Excellence Award (GPEA) for achieving significant milestones in business excellence.

### ComBank website wins global award from USA's Web Marketing Association

The USA-based Web Marketing Association (WMA) has recognised Commercial Bank of Ceylon with a "Bank Standard of Excellence" award at the Association's WebAwards 2022, at which the world's best websites in 86 industries were honoured.

### ComBank to enhance support to export sector in partnership with NCE

The Bank entered into a strategic partnership with the National Chamber of Exporters of Sri Lanka (NCE) to create another platform to extend financial solutions to the country's exporters, with emphasis on small and medium enterprises (SMEs).

### ComBank wins 4 awards at world's largest annual report competition

The 2021 Annual Report of the Commercial Bank won four awards including a Gold and a Bronze at the latest edition of the MerComm ARC Awards, the world's largest annual report competition.

### ComBank conducts entrepreneurship development programme for VTA students in Anuradhapura

A group of 125 students following various vocational training courses in Anuradhapura, recently benefitted from an entrepreneurship development programme conducted by the Bank, under the banner of its Dirishakthi Sustainable Entrepreneurships Development initiatives.

### ComBank undertakes to reforest 100 hectares in Kandegama, Polonnaruwa

A 100-hectare swath of degraded habitat belonging to the Kandegama forest in the Dimbulagala range of the Polonnaruwa District is to be reforested by the Bank under its latest environment-linked commitment.

### ComBank declared ADB's "Leading Partner Bank in SL" for Trade & Supply Chain Finance

The Bank won the Asian Development Bank's (ADB) "Leading Partner Bank in Sri Lanka" for the second consecutive year at the 2022 Trade and Supply Chain Finance Programme (TSCFP) Awards that recognise the contributions of leading partner banks to trade in Asia and the Pacific.

## November

### ComBank subsidiary CBC Tech Solutions appointed retail partner for Lenovo

CBC Tech Solutions Limited, a fully-owned Information Technology subsidiary of the Bank has been appointed a retail partner for Lenovo products in Sri Lanka, and will continue to offer a wide spectrum of IT solutions to local corporates.

### ComBank highest-ranked bank in "Business Today Top 40" for 14th year

The Bank became the highest-ranked bank and one of the five best-performing companies in Sri Lanka for the 14th consecutive year in the latest Business Today Top 40 ranking released in November 2022.

### ComBank engages with Sri Lankans in Singapore to promote business

The Bank engaged with Sri Lankan expatriates living in Singapore at a two-day programme to promote a host of products and services, conducted in collaboration with the Sri Lankan High Commission in the country.

### ComBank becomes only Bank in Sri Lanka to win National Quality Award from SLSI

The Bank was honoured by the Sri Lanka Standards Institution (SLSI) with the National Quality Award – the highest award presented in the country to recognise performance excellence in quality.

### ComBank opens 269th branch in Kirillawala

The Bank recently opened its 269th branch in Sri Lanka in Kirillawala

### ComBank introduces digital receipts for CRM & ATM withdrawals

The Bank introduced digital receipts for ATM transactions, another green banking initiative that is not only environment friendly, but enhances convenience to customers, cuts down on transaction charges and reduces paper wastage.

### ComBank signs a MoU with UNDP Sri Lanka to promote financial inclusivity of women and environment restoration

Bank signed a Memorandum of Understanding (MoU) with the United Nations Development Programme (UNDP) in Sri Lanka to promote financial empowerment and inclusion of women through economic development towards a green development pathway for Sri Lanka.

## December

### ComBank launches maturity-based foreign currency investment plan

The Bank announced the launch of a unique investment plan that enables Sri Lankans earning foreign currency to save fixed monthly amounts and enjoy attractive interest rates to build foreign currency savings

### ComBank named "Strongest Bank in Sri Lanka in 2022" by Asian Banker

The Bank was proclaimed the "Strongest Bank in Sri Lanka" in 2022 by Asian Banker, a leading platform in the Banking and Financial Services industry.

### ComBank wins Oscar-equivalent "Bank of the Year" award from "The Banker" – UK


The Bank was crowned Sri Lanka's "Bank of the Year" by the respected "The Banker" magazine of the UK, the Oscar equivalent of the banking fraternity.

### ComBank places Sri Lanka on global map at UN Climate Change Conference

The Bank recently had the distinction of being featured to a global audience as one of 25 banks around the world that are working to promote environment consciousness among their customers through its environmental feature in the Flash Digital Bank Account.

### ComBank wins Green Building Award for Trincomalee branch building

The Trincomalee branch was recently awarded a Gold rating under the Green Building awards presented by the Green Building Council of Sri Lanka (GBCSL) for the building's eco-friendly features.

### ComBank introduces "Visa Direct" and "Mastercard Send" card-to-card fund transfers – a first in Sri Lanka

Bank enabled "Visa Direct" and "Mastercard Send" card-based fund transfer facilities for the first time in Sri Lanka. With this digital initiative of Bank, Visa and Mastercard Debit and Prepaid cardholders can transfer funds to any locally-issued Visa and Mastercard Debit, Credit or Prepaid card through Commercial Bank's ATMs, CRMs and Q+ Payment App.

# Performance Review
## Message from the Chairman

When the global and local operating environment is volatile, we ensure that we frequently take stock of our strategic direction and reassess and recalibrate adopting an agile process to accommodate evolving challenges.

Resilience is entrenched in the very ethos of Commercial Bank. Despite unprecedented challenges in all sectors of the economy during the financial year 2022, the Bank continued to generate significant shareholder value and helped millions of customers realise their goals and contend with their difficulties. The Bank paid over Rs. 19 Bn. in taxes to strengthen the fiscal resilience of our Nation, supported our communities through charitable donations and volunteerism, and made progress towards achieving Sri Lanka's climate-related and sustainability goals.

## An era of unprecedented challenges

The entire Sri Lankan political and socio-economic landscape underwent extraordinary turbulence with rapidly changing scenarios. Sri Lanka lost access to international financial markets following the credit rating downgrades resulting in a severe forex liquidity crisis culminating in Sri Lanka announcing an external debt service suspension in April 2022. The severe forex liquidity constraint was felt across the economy, particularly from the second quarter of 2022, with shortages of fuel, medicines, cooking gas, and other inputs needed for economic activity. This situation triggered a wave of further consequences for the Bank: there were difficulties in supporting customers' import purchases, resulting in low trade volumes; high interest rates affected the margins of customers, adversely impacting their ability to service their debts; fewer lending opportunities were available due to corporate customers postponing their investment decisions; the credit quality of customers in vulnerable sectors deteriorated; capital adequacy-related constraints arose due to rising impairment provisions; and the energy crisis hindered the ability of staff to report to work, and the overall context leading to a staff exodus. The year-on-year inflation reached an unprecedented 64.3% in August 2022, largely due to high food inflation of 93.7%. This reflects the impact of rising global commodity prices, monetisation of the fiscal deficit, and currency depreciation.

Despite the Government making several proactive efforts to ensure the long-term stability of the Sri Lankan economy, the business environment performed below expectations in 2022 and the operating context is likely to remain challenging in the foreseeable future with many unresolved issues including uncertainties relating to debt restructuring and delays in IMF facilitation.

## Resilient performance despite challenges

Our performance in 2022 is due in large part to the dedication and tireless efforts of the Commercial Bank team. We ended 2022 with a solid operational performance, navigating the stormy turbulence with prudent, forward-looking strategies that included making the highest-ever impairment provision of Rs. 71.9 Bn. in a year, in the history of the Bank.

The Group, comprising Sri Lanka's biggest private sector bank, its subsidiaries and an associate, recorded an assets growth of Rs. 516.063 Bn. or 26.02% to approach the Rs. 2.5 Tn. milestone. The gross income grew by 71.31% YoY to Rs. 280.387 Bn. with the sharp depreciation of the Sri Lankan Rupee distorting some key indicators. Driven partly by the depreciation of the Rupee on foreign currency loans and advances, the loan book of the Group grew by Rs. 151.239 Bn. or 13.81% YoY as of December 31, 2022. Deposits swelled by Rs. 505.103 Bn. or 34.30%, with the depreciation of the Rupee accounting for part of the growth.

The shift from low-cost to high-cost funds resulting from the higher interest rates on Rupee deposits and the increased cost of living reduced the CASA ratio to 38.36% as of the end of the year. However, it is noteworthy to mention that this was an industry benchmark. The Bank recorded a profit before tax (PBT) of Rs. 22.598 Bn. and the profit after tax (PAT) reached Rs. 22.970 Bn. in 2022 largely due to a tax reversal. The Group PBT and PAT amounted to Rs. 24.505 Bn. and Rs. 24.399 Bn. respectively.

In terms of other key indicators, the Bank's net assets value per share increased by 18.99% to Rs. 164.30. The Bank's Tier I Capital Ratio, and the Total Capital Ratio stood at 11.389% and 14.657%, respectively as of December 31, 2022, both above their respective statutory minimum ratios of 10% and 14%. In terms of asset quality, the Bank's impaired loans (Stage 3) ratio stood at 5.25% compared to 3.85% at end 2021, while its impairment (Stage 3) to Stage 3 loans ratio stood at 39.60% as of December 31, 2022, compared to 42.76% at the of end 2021.

In terms of liquidity, the Bank's statutory liquid asset ratios for its Domestic Banking Unit and Off-shore Banking Unit stood at 35.01% and 32.37%, respectively, while the consolidated liquid asset ratio for the Sri Lankan operations of the Bank stood at 35.88%, which is well above the minimum requirement of 20%.

The Bank's Cost to Income Ratio before taxes on financial services improved to 26.29% for the year under review from 31.61% in 2021 and 33.95% in 2020. The cost to income ratio inclusive of taxes on financial services improved to 29.22% from 37.97% in 2021 and 39.95% in 2020.

Although we performed better relative to our peers, we too had to contend with the foreign currency liquidity shortage that affected the country. We responded to our customers' foreign currency needs rationing what was available in a justifiable manner while prioritising essential imports. With regard to rupee liquidity, the Bank carried substantial excess throughout the year, making investment for a return commensurate with the risk challenging at times.

The Board gave careful consideration to the sustainability of the Bank in the wake of uncertainties associated with the ongoing efforts by the Government relating to debt restructuring and the possibility of further deterioration in asset quality. Accordingly, the Board of Directors decided to announce a scrip dividend of Rs. 4.50 per share for the year, which we believe is a prudent measure that balances the need to accommodate shareholder expectations and the need to overcome any potential stress on capital and retain capacity for future growth of the Bank.

## A track record of operational excellence

The Bank has grown over the decades to its current position as Sri Lanka's largest private sector bank and has built a rich legacy as the most recognised Sri Lankan bank, both locally and internationally. We are extremely proud that we have won awards for all facets of our performance: customer service, digital innovations, sustainability, social responsibility, governance, corporate communication, etc. The Bank's recent recognitions include the Best Green Bank in Sri Lanka, the Best SME Bank, the Best CSR Bank, the Best Digital Bank, the Best Bank for

ESG, the Trade Finance Bank of the Year, the Most Respected Bank in Sri Lanka, and the Strongest Bank Brand, among over 60 awards secured during 2022.

We always strive to make the best use of capitals in terms of Integrated Reporting parlance. This involves making use of all of the Bank's multiple capitals and not solely financial capital. In terms of customer capital, we focused on deepening our customer relationships by providing exemplary service during challenging times, and making banking more accessible and inclusive to the public. In terms of human capital, we focused not only on enhancing the skills and competencies of our people in core banking functions, but also training all levels of staff, including executives, in a wider array of aspects including customer delight, compliance, corporate governance, risk management, and integrity. In terms of manufactured capital, we emphasised improving the performance of loss-making branches. The Bank has one of the largest touch-point networks of any corporate in the country, a network that was built through an enormous strategic effort during the late 1990s and 2000s. Even as the emphasis shifts from brick-and-mortar branches to digital banking, we recognise the immense value of our network both for retail and corporate customers, and will continue to capitalise on all the benefits – in outreach, customer relationships, new customer acquisition, etc. on an island-wide basis.

Our Environmental, Social, and Governance (ESG) engagement has continued to be a focus in 2022 and we made considerable progress with several important achievements. For years, we have played a pivotal role in environmental advocacy, demonstrating how the local banking industry can contribute towards Sri Lanka's transition to a low-carbon economy. Becoming the first carbon neutral Bank in Sri Lanka in 2020 is a clear testament to the effectiveness of our pioneering initiatives to significantly lower our carbon footprint as well as that of our customers and other stakeholders. Remaining a consistent leader in climate financing we promote sustainable economic growth and address challenges posed by climate change through our green financing and climate financing initiatives. The Bank's Green Financing is geared towards the fight against climate change, meeting the United Nations Sustainable Development Goals 7 and 12: Affordable and Clean Energy, and Responsible Consumption and Production. Our dedication and transparency in reporting our climate investments gained global recognition during the year. Furthermore, our initiatives include lending to support eco-friendly operations, migrating customers to paperless banking, and reducing consumption of non-renewable energy, water, and other resources in our operations. Our focus on supporting and uplifting communities enabled us to complete over 600 projects through the Bank's CSR Trust under the categories of education, healthcare, community, arts & crafts, and the environment.

## A strategic blueprint for growth

Crucial to our resilience is our strategic planning process, which is well entrenched and has been fine-tuned over several decades. The Corporate Plan and the Budget are set out for five years on a rolling basis, allowing us to be responsive to shifts in the operating environment. Especially when the global and local operating environment is volatile, we ensure that we frequently take stock of our strategic direction and reassess and recalibrate, adopting an agile process to accommodate evolving challenges.

The Board of Management provided constant strategic stewardship for facing these evolving challenges in 2022. These included prudent management of forex facilitating remittances, promoting exports focused relationships, prioritising imports, supporting threatened businesses through rehabilitation, and focusing on customer anchoring through mechanisms such as ComBank trade clubs. We continued to strengthen our position in the SME and Micro-enterprise customer segment, and, in particular, with enterprises that are women-led and women-connected. A strategic approach is imperative here since these segments encompass a wide range of industries of varying sizes. As such, catering to them requires building our skills and capacities to create solutions that meet their needs and expectations, rather than scaling down solutions that are applicable to larger corporates. Our ongoing SME Banking Transformation Project and our Gender Advisory Project are enabling us to do just that, and the Bank has emerged as a leading lender to these segments.

We continued to make great progress in the execution of our Digital Roadmap, and we have virtually achieved our target of becoming a digital bank having onboarded over 50% of our customer base and offering a full range of services for their journeys through digital channels. In addition to providing a customer experience for simplicity and functionality through our multiple channels of digital solutions, several initiatives were taken to improve our internal processes and controls and create end-to-end digital chains. This allows our stakeholders to be relieved of tedious, repetitive tasks, and staff reassigned to more customer-centric functions, which, in turn, not only drives our profitability but enhances internal stakeholder experience as well.

## Proactive risk management and sound corporate governance

We strive to ensure maximum coverage and readiness for risks – and remain alert to converting risks into opportunities – through our comprehensive governance and risk management frameworks. An astute and proactive approach to risk management is crucial in an unstable operating environment. The Early Warning System (EWS) launched during the year proved to be beneficial in identifying risk-elevated assets by analysing portfolio performance and market trends through the system's predictive capabilities. This enabled us to better understand the pressures our customers face and collaborate with them more productively to avert negative outcomes. Furthermore, with capital providing an indispensable buffer during times of heightened credit risk and with the real threats arising out of possible external and internal debt restructuring, the Board played a guiding and advisory role in prudent capital adequacy management. This is particularly crucial as the true picture of the condition of the Bank's loan book is masked, and we must be prepared to manage credit risk with the phasing out of the Government's relief and forbearance measures.

Furthermore, a turbulent, competitive, and saturated industry landscape means that there is an even greater demand for the Board to remain vigilant in terms of its corporate stewardship. Our stakeholders have heightened expectations of transparency, accountability, and good governance that go beyond mere compliance. The Bank, through its conduct and performance, must demonstrate its corporate integrity and responsibility – and this is a pre-condition for its ability to remain a viable enterprise in the communities in which it operates. The reader of the Report will find more information on these aspects in the Chairman's message on Governance on pages 158 and 159.

## Vote of thanks

I wish to extend my sincere gratitude to Justice K Sripavan who relinquished office from the Board Chairmanship on March 01, 2022 and thank him for his dedicated service to our Bank during these challenging times. My appreciation is extended to the Deputy Chairman, Mr Sharhan Muhseen whose insights and broad contribution were a great asset to the Bank. I thank the former Managing Director/Chief Executive Officer, Mr S Renganathan who retired on May 11, 2022, the current Managing Director/Chief Executive Officer Mr Sanath Manatunge, and the Executive Director/Chief Operating Officer, Mr S Prabagar for their exemplary leadership during turbulent times. Against the backdrop of economic uncertainty fuelled by political turmoil and economic downfall, our corporate managers, senior managers, and the entire Commercial Bank team represented the Bank with immense professionalism and dedication and worked tirelessly to serve our customers, even while many were facing struggles of their own. They remain our greatest asset. On behalf of the Board, I thank all our staff members for their dedication and positive response during this difficult period. I am grateful for the unstinted support and loyalty of our shareholders, customers, and other stakeholders. Finally, my appreciation is extended to my colleagues on the Board, for their strong and consistent support and insightful guidance.

Drawing on our experience of 103 years and our strong foundation, I look forward to 2023 as we continue to deliver value to our shareholders and exemplary services to our customers.

It was Albert Einstein who once said "Life is like riding a bicycle. To keep your balance you must keep moving". In a year of multiple crises, a healthy balance between the stakeholder expectations and the diverse portfolios of the Bank, was the Bank's primary aim, and the Bank kept moving forward, to a future that stood chiseled in sediments of time, heralding the dawn of hope to newer financial horizons.

**Prof A K W Jayawardane**
Chairman

Colombo

February 24, 2023

# Managing Director/ Chief Executive Officer's Review

We continued to make substantial investments in technology with a view to transitioning every step of the customer journey to digital, elevating their experience and making every interaction rewarding on one hand and optimising business processes leading to enhanced operational efficiencies on the other.

Commercial Bank demonstrated its enduring strength and resilience with a stable performance in 2022 amid the unprecedented operating environment. With a sharpened focus on our strategy and on achieving an equitable balance between the expectations of all stakeholders, we navigated the perfect storm retaining our inherent strengths and stability, and delivering sustainable value to our stakeholders. Our performance under intense pressure is a tribute to the entire Commercial Bank team, who served with utmost dedication and resolve. I am proud of our people and grateful for the understanding and loyalty of our customers and other stakeholders during a very difficult year.

## Navigating the storm

As a leading bank in Sri Lanka, we firmly stood by our customers, employees, and the community, lending a hand, easing their burden, and helping them navigate the challenges and uncertainties of the year. We continued to strengthen the foundations of our Bank through strategic investments in people, processes, technology, and products. We also continued to make substantial investments in technology with a view to transitioning every step of the customer journey to digital, elevating their experience and making every interaction rewarding on one hand while optimising business processes that lead to enhanced operational efficiencies on the other. We optimised the wide range of digital tools available for customers to manage this challenging period. By modernising and evolving our risk capabilities, we further strengthened our resilience and competitive edge. We also made significant progress against our climate commitments and contributed more than Rs. 170 Mn. on social and environmental engagements to make an impact on the community and the environment.

We continued to play our part in offering relief to customers and supporting the economy. To date, we have offered Rs. 668 Bn. in moratoria to over 54,467 customers across all segments, while still lending and providing liquidity to fuel economic activity. Our focus was on maintaining debt sustainability by collaborating closely with customers to rehabilitate, restructure and re-evaluate facilities. In an unprecedentedly challenging socio-economic environment, our teams discharged their duties with empathy to support our customers to overcome hardships. Our support extends beyond giving loans to providing necessary knowledge in business management, crisis management, trade opportunities, and enhancing financial literacy. We have also made considerable headway in closing the access-to-financing gap and driving financial inclusion by making banking more accessible to a larger cross-section of the population.

Despite the challenging circumstances, with the commitment and endurance of our winning team, the Bank strived to deliver a seamless and uninterrupted service to the customers and communities that we serve. Whilst nurturing a high-performing, engaged, supportive, and inclusive workplace, we maintained our attention on succession planning, agile and relevant structuring, talent retention and attraction. Continuous training, both in-house and outbound, has been established to ensure our talent sourcing process is fortified in the long run by elements of lifelong learning.

In recognition of our performance, strategic initiatives, innovations, upgraded services, and other noteworthy achievements in the banking field, we were named "The Bank of the Year" by the UK magazine "The Banker", which marks the twelfth time the Bank has received this award. The Bank secured over 60 foreign and local awards and accolades, reaffirming the claim of being the most awarded bank in the country.

## Our 2022 results

Despite the ongoing adverse effects of macro-economic variables, the Bank recorded a strong operational performance, demonstrating the resilience and the enduring strength of our long-term strategy. The Bank's Bangladesh operation made a noteworthy contribution in this regard. We recorded a healthy topline growth, as reflected by the 71.20% increase in gross income, supported by the rise in market interest rates and income earned in foreign currency due to the sharp depreciation of the Rupee. The loan book recorded a growth of 13.07%, which, however, was mainly due to the impact of the sharp depreciation of the Rupee on FCY loans & advances. Deposits grew by 32.66%, partly due to the impact of Rupee depreciation on FCY deposits. Consequently, total assets grew by 24.45% as of December 31, 2022, compared to end 2021. After accounting for the highest ever impairment provision for a year of Rs. 71.462 Bn. in 2022 on account of both loans advances and investments in USD denominated Government securities and operating expenses of Rs. 34.936 Bn., we reported an operating profit before taxes on financial services of Rs. 26.491 Bn. compared to Rs. 37.810 Bn. in 2021, a 29.94% drop. Profit after tax for the year amounted to Rs. 22.970 Bn. compared to Rs. 23.606 Bn in 2021.

Our results reflect our risk appetite and risk tolerance which continue to be well-managed, especially in the context of the challenges faced by the economy as well as the banking sector. We have continued our focus on preserving the quality of the loan book, managing interest rate and liquidity risks prudently while improving compliance to minimise regulatory and reputational risk. Although the increase in the cost of funds is inevitable, all possible steps have been taken to reprice and rebalance the financial assets, maintain a healthy fee-based income and to manage non-interest costs at acceptable levels. The substantial provisioning for impairment, which was an unavoidable response to the prevailing economic environment, assures our stakeholders that the Bank is financially prepared for any future contingencies.

## Portfolio quality

Due to severe domestic macroeconomic pressures, primarily emanating from a deteriorating external financing position, Sri Lanka went through one of the worst economic crises in its history during the year under review. Consequently, Sri Lankan Sovereign ratings were downgraded and the Government is currently negotiating a debt restructuring programme with the creditors to reach debt sustainability. In the customer loans segment, there was a remarkable deterioration in asset quality across the banking industry due to the prevailing adverse operating context. The industry Impaired Loans (Stage 3) ratio is projected to have reached double digits by end 2022. Taking the gradual deterioration in asset quality across and the unsustainable debt levels of the Government, we made substantial impairment provisioning both on account of loans and advances as well as investments in USD denominated Government Securities.

Implementing an effective EWS was a timely initiative to predict potential exposures showing signs of delinquency 9 – 12 months in advance. This provides the Lending Officers adequate lead time to attend to such warnings with appropriate and well-thought remedial measures, facilitating the Bank to maintain commendable portfolio quality. As a result, we have been able to maintain the Impaired Loans (Stage 3) ratio at 5.25%, which is one of the lowest in the banking industry.

## Liquidity and capital constraints

Macro-economic pressures and substantial impairment provisioning exerted severe stresses on both the liquidity and the capital adequacy of banks. Liquid assets being the lifeblood of operations in the short term, we gave utmost priority to managing liquidity. Assets and Liabilities Committee (ALCO) meetings were held a lot more frequently – twice a day at times – and conscious decisions were made to maintain healthy liquidity positions. Lending efforts had to be prudently curtailed while the neediest sectors were prioritised, ensuring that there were continuous credit facilities for those hardest hit by the economic hardships. Specifically, we strived to support the pharmaceutical, agricultural, and export-oriented sectors, and especially assisted SMEs to sustain their operations in the interest of supporting daily life and faster recovery of economic activities.

The substantial impairment provisions made, the impact of the negative carry on some of our treasury assets following the sharp rise in market interest rates and the considerable growth in risk-weighted assets following the depreciation of the rupee had a significant impact on the profitability and the capital adequacy. Consequently, we had to draw down on the Capital Conservation Buffer during the year as permitted by the CBSL. However, through retained earnings and the Rs. 10 Bn. we successfully raised in Tier II capital in December as per the capital augmentation plan, we were successful in restoring capital adequacy ratios to above minimum requirements.

Against the above backdrop, we are determined to address issues relating to rebalancing the balance sheet, creating a culture of capital-based decision-making, divisional capital allocation, and aligning systems and processes to ensure a higher level of governance, and cost-effective growth on a priority basis.

## Digitally fortified

Through ongoing investments in our digital offering, we have transformed the way that our customers interact and transact with us, leading to an improved customer experience. This included the launch of Sri Lanka's first "wearable banking" product via the award-winning Flash Digital Account, thereby stimulating a new dimension of infinite possibilities for our customers.

Several other enhancements were effected during the year under review including the introduction of digital customer verification, allowing customers to complete verification requirements and gain full access to all the functions of the activated app remotely. Furthermore, we augmented the teller experience, facilitated foreign remittances digitally, and enabled secure onboarding to payment portals. The upgrade of the Bank's core banking system, which was completed in January 2023, has helped meet the increasing regulatory and business requirements and enhance overall performance. These technological and digital investments have prepared the Bank for the future, making it a safer and stronger bank across the board. Through these initiatives, we have grown our digitally enabled customer base by over 50% and increased digital transactions by over 30% YoY.

The automation of processes was another point of emphasis during the year. These included the centralised procurement system, the automation of inward remittances and nostro reconciliations, and the real time/near real time monitoring of branch operations by the Inspection Department, resulting in time and cost efficiencies. Going forward, we plan to introduce AI-based interfaces such as a trilingual AI-Smart chatbot to our website to assist in customer queries, while sustaining the call center operations as an additional channel to create customer convenience with a human touch. Digital Assistants deployed across the branch network have been useful for onboarding and supporting customers to engage with our digital platforms. Analytics of stakeholder engagement provides opportunities for the strategic leveraging of future-ready products and services.

## Championing women empowerment and SME development

We remained committed towards empowering women in the workplace and the community by providing unbiased access to capital and tailored solutions, specialised education, and advisory services to a large community of women across Sri Lanka. The inclusion of proportional allocation for female employees in functional teams and their succession to middle and higher management roles create an internal culture of inclusivity and empowerment.

Furthermore, we collaborated with the IFC under the IFC-DFAT Women in Work programme to increase access to finance for women, an important under-served segment of our population. Our first women-centered product, Anagi Women's Savings Account, was launched in 2012, and has since grown to over 500,000 accounts as of December 31, 2022, with a balance of Rs. 28.779 Bn. This year, we introduced a new loan scheme that is designed to support the aspirations of women entrepreneurs. The scheme recorded a total portfolio of Rs. 3.3 Bn as of the end of 2022. As part of this scheme, we provided several ancillary capacity building services for over 1,000 women (including both customers and non-customers) around the island, including launching a certificate course for women entrepreneurs in partnership with the Postgraduate Institute of Management, University of Sri Jayewardenepura, which was one of our key non-financial service providing initiatives, among many.

Amidst the challenging external environment, we prudently revisited our SME portfolio growth prospects and prioritised the portfolio quality to manage the pressure on profitability and capital. We have been actively participating in Government-sponsored special credit lines introduced by funding agencies and the CBSL to support SMEs. Under the agriculture and micro-finance segment, we enhanced our outreach towards rural and semi-urban areas with the prime intention of strengthening the rural economy and extended financial assistance to overcome potential food scarcity, in particular targeting livestock, vegetable, and paddy produce.

## Advancing sustainability

During the year, we adopted a Sustainability Framework as given on page 52 with the purpose of "being a responsible financial services provider by enabling and empowering people, enterprises and communities towards environmentally-responsible, socially-inclusive and economically-enriching growth." Our approach to sustainability will be guided by its three pillars: sustainable banking, responsible organisation and community sustainability, based on which the Management Discussion and Analysis given on pages 58 to 137 of this Annual Report has been structured. We have aligned the KPIs of our Sustainability Framework with those of the CBSL's Road Map for Sustainable Finance in Sri Lanka and continue to monitor progress on a quarterly basis.

Over the year, we contributed to community investment through the Bank's CSR Trust with a particular focus on education, healthcare, community, arts & crafts, and the environment. We established 27 IT labs in underprivileged schools, set up 43 STEM classrooms and donated critical care equipment to 8 Government hospitals. We are collaborating with the World Food Programme to improve the nutrition needs of 76,500 households in the lowest strata of society.

Our efforts to achieve Carbon Neutral Status are driven by our broad-based Carbon Neutral Strategy with the ultimate aim of lowering our carbon footprint. In 2022, we disbursed 261 green financing facilities to support customers to transition to a low carbon economy and our Green Financing portfolio contributed towards reducing approximately 229,752 metric tonnes of carbon dioxide equivalent ($tCO_2e$) emissions to the atmosphere. We are also migrating towards an increasingly paperless culture to reduce our front-end and back-end paper consumption by 30% by 2024. The culmination of years of effort to grow our Bank sustainably led to Commercial Bank being awarded the "Best Sustainable Bank in Sri Lanka" at FinanceAsia's Country Awards 2022 and the "Best Bank for Environmental and Social Governance (ESG)" at the latest international awards ceremony of the respected Asiamoney magazine. Furthermore, Sri Lanka was placed on the global map at the UN Climate Change Conference as one of 25 banks around the globe that are working to promote environmental consciousness among their customers. We were one of the first five banks worldwide to integrate the Doconomy Åland Index into the Carbon Footprint Calculator feature on the Bank's Flash Digital Bank Account App. Commercial Bank also emerged as one of the top banks, and the only Sri Lankan bank to win two Climate Assessment for Financial institutions (CAFI) awards from the IFC.

## A vision for 2023

Recognising that the country will continue to face economic hardships on its path to recovery in the ensuing years, our plans and road maps emphasise both resilience and future-readiness. We will continue to transform our existing systems to build comprehensive digital customer journeys, rather than isolated experiences, eliminating the need for customers to visit the Bank. As a capital management effort, we will engage in capital-light activities and capital-raising exercises in 2023 and beyond to be well-capitalised for stakeholder value creation. We will continue to strengthen our focus on exporters, a national priority and the SME sector, smaller industrial players, to ensure that they are adequately capitalised and operational for the long-term. We have also created a rich digital ecosystem for business customers as a ground breaking project. Furthermore, we will continue to focus on our Bangladeshi operations which is a competitive advantage for us.

As the recipient of the National Quality Award from the Sri Lanka Standards Institution in 2022, we will sustain and enhance the quality parameters while precluding any compromises in the services and the values the Bank has built on over the past 103 years.

Our fundamental resilience, reinforced by our talented and dedicated employees and the steadfast support of our customers, gives me great confidence in the future. We are moving forward with optimism as we continue to build our high-performing, digitally enabled, future-ready Bank – all powered by a winning culture.

## Acknowledgements

In closing, I express my immense gratitude to our customers and to you, our shareholders, for your support and engagement over these many years. My sincere thanks are extended to the members of the Corporate Management, Senior Management and all our staff members across Sri Lanka, Bangladesh, the Maldives, other overseas locations and the Sri Lankan subsidiaries for their tremendous efforts and unwavering commitment to delivering for our customers and our shareholders. My gratitude is extended to our former Chairman, Justice K Sripavan for his leadership and foresight which has been a great strength. My sincere appreciation goes to my predecessor, Mr S Renganathan, who retired from the Bank in May 2022; under whose visionary leadership, the Bank scaled greater heights. I am also grateful to the Chairman and other members of the Board of Directors for their invaluable guidance in navigating the unprecedented challenges. I also wish to extend my thanks to the officials of the CBSL for their valuable counsel. I extend my appreciation to the External Auditors, Messrs Ernst & Young for their professionalism and timely completion of the audit.

I would like to end my review with reference to a beautiful quote by poet Maya Angelou on hope that reads *"If one has courage, nothing can dim the light that shines from within"*. Let us, as a Nation, keep the attic lights bright and the collective dream sustainable.

**S C U Manatunge**
Managing Director/Chief Executive Officer

Colombo

February 24, 2023

# Awards and accolades

## International Awards

**COSMOPOLITAN THE DAILY BUSINESS AWARDS 2022, US**

- Best Commercial Bank - Sri Lanka 2022

**GLOBAL BANKING AND FINANCE REVIEW, UK**

- Best Green Bank Sri Lanka 2022
- Best Retail Bank Sri Lanka 2022

**GLOBAL BUSINESS MAGAZINE, UAE**

- Best Retail Bank Sri Lanka 2022
- Best Corporate Bank Sri Lanka 2022

**INTERNATIONAL BUSINESS MAGAZINE, UAE**

- Best Commercial Bank Sri Lanka 2022

**WORLD BUSINESS OUTLOOK MAGAZINE, SINGAPORE**

- Best Bank in Sri Lanka 2022
- Banking CEO of the Year 2022 (Mr S Renganathan)

**GLOBAL BUSINESS REVIEW MAGAZINE, UAE**

- Best Retail Bank Sri Lanka 2022
- Best Corporate Bank Sri Lanka 2022

**WORLD ECONOMIC MAGAZINE, USA**

- Best Commercial Bank Sri Lanka 2022
- Best Banking CEO Sri Lanka 2022

**FINANCE DERIVATIVE MAGAZINE, THE NETHERLANDS**

- Best CSR Bank Sri Lanka 2022
- Best Digital Banking Initiative Sri Lanka 2022 – Flash

**GLOBAL ECONOMIC MAGAZINE, UK**

- Best Digital Bank – Sri Lanka 2022
- Best Corporate Socially Responsible Bank – Sri Lanka 2022

**WORLD BUSINESS STAR MAGAZINE, UK**

- Most Innovative Retail Bank Sri Lanka 2022
- Best SME Bank Sri Lanka 2022
- Best Trade Finance Bank Sri Lanka 2022

**FINANCEASIA COUNTRY AWARDS, FINANCEASIA MAGAZINE, UK**

- Best Bank in Sri Lanka
- Best Sustainable Bank in Sri Lanka

**ASIAMONEY BEST BANK AWARDS 2022, ASIAMONEY MAGAZINE, UK**

- Best Bank for SMEs in Sri Lanka
- Best Bank for ESG in Sri Lanka

**ASIAN BANKING AND FINANCE MAGAZINE 2022, – WHOLESALE BANKING AWARDS, SINGAPORE**

- Sri Lanka Domestic Trade Finance Bank of the Year

**ASIAN BANKING AND FINANCE MAGAZINE 2022, – RETAIL BANKING AWARDS, SINGAPORE**

- COVID Management Initiative of the Year – Sri Lanka
- Digital Wallet Initiative of the Year – Sri Lanka – Q+

**RETAIL BANKER INTERNATIONAL ASIA TRAILBLAZER AWARDS 2022**

- Best Retail Bank – Sri Lanka

**THE ASIAN BANKER, SINGAPORE**

- Best Managed Bank in Sri Lanka
- Strongest Bank in Sri Lanka 2022

**EUROMONEY MARKET LEADERS 2022, EUROMONEY MAGAZINE, UK**

- Market Leader in SME Banking in Sri Lanka
- Market Leader in CSR in Sri Lanka
- Highly Regarded for Digital Solutions in Sri Lanka
- Highly Regarded for Investment Banking in Sri Lanka

**GPEA 2022 AWARDS, APQO INTERNATIONAL BEST PRACTICE AWARDS AIBP 2022 AWARDS AIBP 2022**

- Global Performance Excellence Award 2022 – World Class
- Gold Award for Managing the system accesses given to Bank Employees

**WEB MARKETING ASSOCIATION (WMA), USA**

- Bank Standard of Excellence for www.combank.lk
- Outstanding Mobile Website

**THE BANKER, UK**

- Best Bank Sri Lanka – Bank of the Year awards

**GLOBAL FINANCE, UK**

- Best SME Bank Sri Lanka 2022

**BUSINESS TABLOID AWARDS**

- Best Digital Bank 2022
- Best Corporate Bank 2022

**GAZET INTERNATIONAL MAGAZINE, SINGAPORE**

- Best SME Bank Sri Lanka 2022
- Best Digital Bank Sri Lanka 2022
- Best Bank for CSR Sri Lanka 2022
- Best Green Bank Sri Lanka 2022

**GLOBAL BRANDS MAGAZINE, UK**

- Best Banking Brand – Sri Lanka

## Local Awards

**SLIM DIGIS 2.1**

- Best Digital Marketing Campaign – Banking & Finance (Silver Award) – Launch of ComBank Digital
- Best Digital Marketing Campaign – Banking & Finance (Silver Award) – Relaunch of Flash Digital Bank Account

**SLIM DIGIS 2.2**

- Merit Award for Small Budget Impact

**THE INSTITUTE OF CHARTERED PROFESSIONAL MANAGERS OF SRI LANKA**

- Top Ten Winners of the Best Management Practices Awards 2022; "Back to Business in the New Normal"

**BRAND FINANCE, SRI LANKA**

- Strongest Bank Brand in Sri Lanka

**SRI LANKA STANDARDS INSTITUTION – SLSI**

- National Quality Award

**BEST WEB AWARDS 2022, LK DOMAIN REGISTRY**

- Silver Award for the Best website in the Banking category

**SLIM BRAND EXCELLENCE AWARDS 2021**

- Best CSR Brand Gold Award
- Best New Entrant Brand Bronze Award for Q+ Payment App

**SLIM BRAND EXCELLENCE AWARDS – 2022**

- Silver Award for the Agile Brand of the year for ComBank Digital
- Silver Award for the CSR Brand of the year
- Bronze award for the Innovative Brand – Flash Digital Bank Account
- Bronze award for the Local Brand of the year

## Bangladesh Awards

**GLOBAL ECONOMIC LIMITED, UK**

- Best Foreign Bank in Bangladesh – 2022 for the 3rd consecutive year

**WORLD BUSINESS OUTLOOK, SINGAPORE**

- Most Recommended Foreign Bank in Bangladesh –2022 for the 2nd consecutive year

**INTERNATIONAL BUSINESS MAGAZINE, UAE**

- Most Sustainable Bank in Bangladesh – 2022 for the 2nd consecutive year

**GLOBAL BUSINESS REVIEW MAGAZINE, UAE**

- Best Corporate Bank Bangladesh – 2022

**WORLD ECONOMIC MAGAZINE, USA**

- Best Foreign Bank in Bangladesh –2022

**NATIONAL BOARD OF REVENUE (NBR), BANGLADESH**

- Special award for being one of the highest tax payers of the country

**BANGLADESH BANK**

- Special commendation letter from the Governor for disbursing full allocation of Stimulus package to the SME sector

# Operating Environment
# Connecting with stakeholders

Connecting with stakeholders is all about identifying the specific expectations of different stakeholder groups while distinguishing the diversity between them, formulating methods of engagement to suit stakeholder wishes, prioritising delivery and following up to stakeholder feedback, all with a view to build and sustain mutually beneficial relationships. This will ensure the Bank to stay true to its overall ethos and ethical footprint, ensuring that the Bank is no flickering brand but one that is always visible, blazing in the minds of the stakeholder groups as a stalwart and leader of service delivery in financial intermediation and maturity transformation.

The Bank interacts with a large number of internal and external stakeholders, those that have the potential to make an impact on the Bank's value creation process as well as those who are affected by its activities and whose support is required for the sustainability of the enterprise. While the identification of stakeholders to whom the Bank has legal obligations, such as employees and investors, is straightforward, the increasing presence and power of social media sites has made it possible for anyone who has interactions with the Bank to become a stakeholder. This makes the selection and prioritisation of stakeholders extremely difficult. These developments have also impacted the manner corporates communicate with all concerned as well as maintaining a standardised message across various networks and media difficult. At the same time, stakeholders are divided along the lines of expectations and preferred modes of engagement. The unprecedented conditions that prevailed in the recent past have further compounded these difficulties, but at the same time, created an acute need to engage deeply with stakeholders to clearly identify their concerns and aspirations and appropriately engage with them.

The banking ecosystem is fast moving from a footfall-based engagement process to a largely digitalised experience. The stakeholders customers in particular, are now more comfortable than ever with the digital interactions and are willing to move away from visiting the Bank to engaging with it from the comforts of their own homes. The digital faithful are here for the long haul.

Taking cognisance of the above facts and developments, the Bank has identified following groups given in the Figure 03 to be its key stakeholders considering their influence and their interest in our business. We have presented them in the order of their ability to affect our operations from high to low.

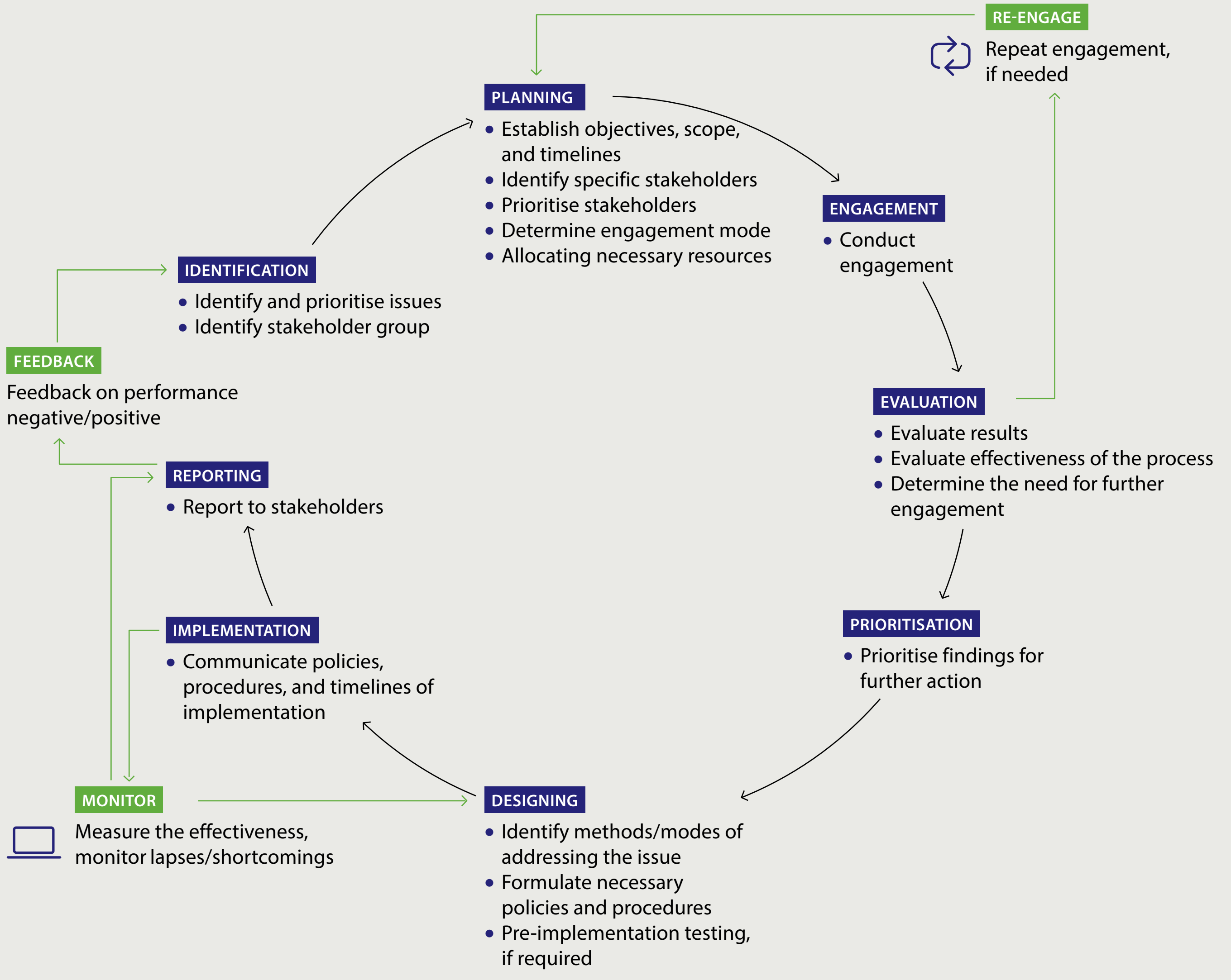
Figure – 03: **Our key stakeholders**

| Stakeholder group | | Level of priority and the reason | Engagement strategy |
|---|---|---|---|
| Investors | High | Due to the difficulty and the cost in raising fresh capital to meet the capital management objectives of the Bank given the lackluster performance in equity markets consequent to the current adverse economic environment which in turn has affected the Bank's performance | Highly engaged |
| Customers | High | As the Bank's ability to operate as a "going concern" depends on how best and effectively their expectations are met | Highly engaged |
| Employees | High | As they act as the intermediary between the Bank and the customers and other stakeholders | Highly engaged |
| Government institutions and regulators | High to moderate | As a financial intermediary, we are operating in a highly regulated industry and being one of the higher tier Domestic Systemically Important Banks | Keep satisfied |
| Business partners | High to moderate | Due to the dependency on critical to less customised solutions by them | Keep informed |
| Society and environment | High to moderate | Due to the obligation to operate responsibly to secure the social license | Keep informed |

High    High to moderate

The Figure given below demonstrates the stakeholder engagement process in place at the Bank which reflects our ethos of having the best interest of all the stakeholders at heart – Bank's tag line – "Our interest is in you" which has enabled us to maintain continuous and open engagement through multiple platforms, thereby strengthening collaboration with stakeholders. This process has paved the way for us to incorporate their legitimate concerns and expectations in to our strategy and deliver value to and, in turn, derive value from them, leading to sustainable value creation.

Figure – 04: **Our stakeholder engagement process**




As depicted in Table 03 on pages 38 and 39, multiple formal mechanisms are in place to connect with our stakeholder groups, to address their expectations. Responsibility for such engagement is shared across the Bank at every stakeholder point of contact.

The changes brought about by the pandemic affected the way, the level and the frequency of engagement with our stakeholders and we resorted to digital mediums more and more in engaging with our stakeholders.

Our stakeholder engagement process enables to better adapt ourselves to meet the evolving challenges, sustain and improve our business model, drive innovation, and gather invaluable insights for our strategic planning process.

## Table – 03: Mode and frequency of stakeholder engagement

### INVESTORS

**Engagement mechanism and frequency**

| Engagement mechanism | Frequency |
|---|---|
| Annual Reports and AGMs | Annually |
| Extraordinary General Meetings | As required |
| Interim financial statements | Quarterly |
| Investor presentations | As required |
| Press conferences and releases | As required |
| Announcements to CSE | As required |
| One-to-one discussions | As required |
| Investors' section in the Corporate website | Continuous |
| Feedback surveys | As required |

**What are the key topics raised and feedback provided**

- Financial performance
- Governance practices in place
- Transparency and disclosure
- Business expansion plans
- Risk management and governance
- Rising taxes in the financial industry
- Resilience to adverse economic environment
- Rising NPCF and impairment charges
- Dividend payments and restrictions imposed by the regulator
- Economic slowdown due to lack of policy consistency
- Achieving sustainable business growth against accepted risks
- Sharp drop in the FCY reserves and successive sovereign downgrades
- Sustainability and climate related developments

**How did the Bank respond to stakeholders**

i. Robust Risk Management and Governance Framework

ii. Optimum levels of liquidity and maximising profitability by optimal usage of liquid assets

iii. Maintained capital adequacy

iv. Worked closely with its correspondence banks and its trade finance customers to manage the foreign currency liquidity

v. Reached out to new funding partners and established new funding lines

vi. Adapted a climate position statement for the Bank

### CUSTOMERS

**Engagement mechanism and frequency**

| Engagement mechanism | Frequency |
|---|---|
| Customer visits | As required |
| Complaints received | As required |
| Complaints resolution officer | As required |
| ComBank BIZ Club | Continuous |
| Branch network, call centre, and digital channels | Continuous |
| Media advertisements | As required |
| Corporate website | Continuous |
| Customer workshops | As required |
| Relationship managers | Continuous |

**What are the key topics raised and feedback provided**

- Swift service
- Customer security and privacy
- Service quality
- Affordability of services and convenience
- Grievance handling mechanism
- Financial education and literacy
- Financial support for revival of business
- Access to financial services
- Enrolment to digital platforms
- Operationalising of CBSL directives
- Growing interest in sustainable investing among private sector
- Need of Financial support for women entrepreneurs

**How did the Bank respond to stakeholders**

i. Adjusting the ways of working and service delivery channels and providing the necessary infrastructure to support customers

ii. Set up Mini Digital Experience Zones, to help customers gradually migrate into digital channels

iii. Extended relief to diverse customers affected by the pandemic through moratorium schemes, relief to non-performing borrowers, review of lending rates

iv. Non financial support to SMEs and Micro Businesses – ComBank BIZ Club grew by 9.1% to 5,243 members by end 2022. Members of ComBank BIZ Club were provided with economic updates and alerts on new business developments via email and SMS

v. Assisted MSME customers with financial literacy and capacity building programmes

vi. A range of new financial and non-financial products and services were launched including the *Anagi* Business Loan for women SMEs, *Anagi* Instant Loan for salaried women, *Anagi* Credit Card, insurance for women customers and entrepreneurship skill development programs for women

Message from the Chairman on pages 26 to 29, Managing Director/Chief Executive Officer's Review on pages 30 to 33, Management Discussion and Analysis on pages 58 to 137, Financial Statements from pages 237 to 386.

## EMPLOYEES

| Engagement mechanism | Frequency |
|---|---|
| Managers' Conference | Annually |
| Town hall meetings | Annually |
| Regional review meetings | Quarterly |
| Reginal Managers' meeting | Monthly |
| Branch marketing meeting | Monthly |
| Training programmes | As required |
| Intranet | Continuous |
| Special staff events | Annually |
| Trade union discussions | As required |
| Employee satisfaction survey | As required |

- Performance and reward management
- Career advancement opportunities
- Training and development
- Work-life balance
- Retirement benefit plans
- Diversity and inclusion
- Safety at workplace
- Stable performance of the Bank

i. A group of identified potential branch Managers were enrolled to a Leadership Development Program conducted by the Postgraduate Institute of Management (PIM)

ii. Special Virtual training programs were conducted targeting Branch Managers, Assistant Branch Managers, and Junior Executive Officers covering technical and soft skills

iii. Work from home arrangements were facilitated for employees by providing necessary IT infrastructure and implementing guidelines on remote working

iv. All employee engagement and development programs were migrated to digital platforms, ensuring collaboration and ongoing interaction

v. The Bank remains committed to the principles of equal opportunity irrespective of gender, age, race, disability or religion in all its HR management processes

vi. All expectant mothers across the Bank were granted special leave to ensure their safety against the third wave of the pandemic

vii. The Collective Agreement with the Bank's branch of the Ceylon Bank Employees' Union (CBEU) was renewed in 2021 for a 3-year period

viii. Providing special transport facilities during the fuel crisis

## SOCIETY

| Engagement mechanism | Frequency |
|---|---|
| Delivery channels | Continuous |
| Press releases, conferences and media briefings | As required |
| Informal briefings and communications | As required |
| Public events | As required |
| Corporate website | Continuous |

- Responsible financing
- Commitment to community
- Financial inclusion and job opportunities
- Microfinance and SME
- Ethics and business conduct
- Environmental performance
- Employment opportunities

i. Launched "Agri Leasing" facilities at low rentals and flexible payment plans, taking into consideration the seasonal income patterns of farmers and cultivation months to support the agronomy of the country

ii. The Bank has further expanded its portfolio of green buildings to include the Jaffna Branch and the Trincomalee branch

iii. Financial literacy programmes for SMEs and Micros

iv. Donation of 280 fully-equipped IT laboratories to schools and other institutions

v. Donation of critical medical equipment to government hospitals

vi. Initiated the reforestation of 100 hectares in Kandegama, Polonnaruwa

vii. 7,000 mangrove plants were planted to cover 1,250 metres

viii. Setup 43 STEM classroom and 44 math labs in rural schools

## REGULATORS

| Engagement mechanism | Frequency |
|---|---|
| Supplier relationship management | Annually |
| Directives and circulars | Continuous |
| Meetings and consultations | As required |
| Press releases | As required |
| Periodic returns | As specified |
| Submissions to policymakers | As required |
| Responses to consultation papers on Directions and other regulations | As specified |

- Compliance with directives and codes
- Microfinance and SME development
- Stability of the financial system
- Migration to cashless payment platforms
- Supporting economic recovery and growth

i. Remaining compliant with regulatory requirements by maintaining internal capital targets that are more stringent than the regulatory requirements

ii. Timely submission of regulatory reports and issuance of press releases

iii. Timely payment of tax payments and furnishing of tax returns

iv. Adhering to the Ministry of Health guidelines and protocols to ensure the safety and wellbeing of customers and employees

# Material matters

As the COVID-19 pandemic tailed off, newer trends and developments surfaced with multiple influences on the banking operations. The acceleration of the demand for digital banking prompted the Bank to further augment its digital offering around customer value streams encompassing the entire customer journey from beginning to end. In particular, the wave of digital products that were introduced since 2020, stood as key innovations, helping in the transformation of a "footfalls" culture into a shelf of digital products at the stakeholders' fingertips. While ushering timely change, the Bank helped stakeholders not just to migrate to digital channels, but to adopt environmentally-responsible practices in their business operations focused on reducing the carbon footprint. The Bank emerged from the pandemic into a whole new era of green precedents and products, where procurements and lending were compliant to both the internal and external taxonomies of sustainable banking. Creativity was a standout livewire that kept the Bank's product offering avant garde, heralding mass digitalisation of exterior channels and automation of internal processes.

The Bank's resilience was second to none. Being agile to the metamorphic changes in technology, demographics, and preferences of the stakeholders, the Bank adapted nimbly to the exterior environment. As a champion of technology, the Bank continued to strengthen the technological and financial literacy of the customers by assisting them in all banking matters throughout their journeys with the Bank. Trilingual presence in both over-the-counter and call center interfaces was a resounding success in the retention and expansion of the customer base. The Bank was also vigilant on global trends, and kept abreast of the latest initiatives, technologies, disruptions and novelties that shaped the year 2022. While market and credit risks were internalised into the ethos and workmanship of the Bank's financial dealings, the Bank kept a watchful eye over its financial cushions, always staying adequately stocked with liquidity while maintaining capital buffers, embarking on farsighted provisioning, in a time of financial crises.

The major disruptions of 2022 were of multiple origins. Due to a plurality of factors, including downgrading of the sovereign credit rating, decline in worker remittances, drop in tourist arrivals, diminishing forex reserves, issues related to debt sustainability, and sharp depreciation of the Rupee, amongst others, Sri Lanka was faced with a bleak and austere 2022. In such a milieu, astute and forward-thinking measures were the need of the moment. Resilience was about staying ahead of disruptions, to stay relevant as a modern outfit that is technology-empowered, digitally road-mapped, automation-friendly, and forward-thinking, without losing the fundamental values the now post-centenarian Bank was originally built on.

Figure – 05: **Materiality determination and integration engagement**

**Identification of material matters to address**

We identify matters that most impact the execution of our strategy. Relevant matters are those that have, or may have, an effect on the Bank's ability to create value to our stakeholders.

**Prioritisation of material matters**

We prioritise matters that most significantly impact our ability to effectively execute our strategy in delivering long-term value and influencing the decision of key stakeholders.

**Integration and execution**

Those matters that are material to the value creation process were then integrated into strategy formulation process in setting KPIs, driving behaviours, measurement of performance and determine the remuneration packages of our staff.

In order to help identify material topics, adapt the Bank's strategy to face the "new normal", and play a significant role in shaping the recovery, the Bank analysed its external environment to identify matters arising from changes that were brought forth by the various developments in the political, economic, social, technological, environmental, and legal/regulatory spheres in the recent past that were relevant to key stakeholder groups, as given below:

Figure – 06: **Matters relevant to the key stakeholder groups**

| | POLITICAL | ECONOMIC | SOCIAL | TECHNOLOGICAL | ENVIRONMENTAL | LEGAL/REGULATORY |
|---|---|---|---|---|---|---|
| **Investors** | 1 Lack of desired level of policy consistency | 2 Economic slowdown | 3 Growing influence of social media | 4 Unorthodox competition and financial disintermediation | | 5 New regulations, compliance requirements, and directives |
| | 6 Lack of desired level of transparency and accountability | 7 Depreciating currencies against USD | 8 Demand for non-financial information and long termism | | | 9 Compliance with Basel requirements |
| | | 10 Downgrading of the Sovereign rating and its cascading effect on the Banking industry | 11 Demand for more transparency and accountability | | | 12 Higher regulatory capital as a D-SIB |
| | | 13 High CAPEX requirements | | | | 14 New Banking Act |
| **Customers** | | 15 Asset growth and asset quality | 16 Changing customer expectations | 17 Migration towards digital platforms | | 18 Compliance requirements and regulations such as FATCA1, GDPR2, and BEPS3 |
| | | 19 Import restrictions | | 20 Cybersecurity Threats | | |
| **Employees** | | 21 Need to enhance productivity | 22 Talent management | 23 Need to reskill staff with technological advancements | | |
| | | | 24 Health and Safety | 25 New working cultures | | |
| **Society and environment** | 26 Geopolitical conflicts | 27 Declining worker remittances | 28 Need to commit to Sustainable Development Goals (SDGs) | | 29 Increasing frequency and magnitude of natural disasters and poor disaster preparedness | |
| | 30 Corruption | 31 Declining global competitiveness of Sri Lanka | 32 Increasing conflicts | | 33 Increasing demand for green banking and green lending | |
| | | 34 Pandemics hampering world trade and economy | 35 Increasing drug pedaling and drug and alcohol addiction | | 36 Climate change | |
| | | | 37 Being socially responsible | | | |
| **Business partners** | | 38 Partnerships for goals through a more collaborative approach | | 39 New technological advances such as AI, Robotics, blockchain | | |

## Materiality matrix

### Opportunities to be capitalised

| Importance to stakeholder | Low | Moderate | High |
|---|---|---|---|
| High | | 6, 21, 28 | 15, 16, 22, 36, 37, 38, 39 |
| Moderate | | 3, 4, 7, 11, 23 | 13, 33 |
| Low | | | |

Importance to the Bank

### Risks to be mitigated

| Importance to stakeholder | Low | Moderate | High |
|---|---|---|---|
| High | | 21, 23, 35 | 1, 2, 5, 6, 12, 15, 16, 17, 19, 20, 22, 24, 34, 36, 37, 39 |
| Moderate | 14, 18, 26 | 7, 8, 9, 25, 27, 29 30, 31, 32 | 4, 10, 13 |
| Low | | | |

Importance to the Bank

## Management approach

The Bank has the best interest of all the stakeholders at heart and therefore, respects mutuality and shared value when delivering value to and deriving value from them that lead to value creation.

In the process, the Bank manages its material topics through its strategic planning process. This entails assigning responsibility to the heads of the relevant divisions of the Bank and allocating the required resources based on the significance of each material topic towards achieving the aforementioned strategic imperatives. The Bank has embedded goals and targets, where appropriate, into the KPIs of the Key Management Personnel (KMP) and are reviewed on a regular basis, to ensure achievement of its objectives with regard to its material topics.

Many policies have been put in place to guide the staff to conduct activities in a responsible, transparent, and ethical manner in managing the material topics. The Board of Directors has duly adopted these policies, which are reviewed at predetermined intervals to maintain them current to reflect the changing conditions. The Integrated Risk Management Department (IRMD) keeps a track of timely revisions to these policies and reports its observations to the Board Integrated Risk Management Committee (BIRMC).

Where relevant, grievance mechanisms have been established with responsibility assigned to the relevant divisional heads to manage, address and resolve grievances. The Bank's lending to its customers and dealings with its business partners are screened for social and environmental aspects.

To ensure adherence to internal controls, policies, and procedures established to accomplish the objectives of material topics, internal and external audits and verifications are conducted periodically, and findings are reported to the Board of Directors and/or to the relevant Management Committees for information and corrective action, where necessary.

Overall risk profile of the Bank depicted by its rating and the awards and accolades that the Bank has secured over the years, clearly demonstrate the effectiveness of this management approach.

## Material topics, risks, opportunities, how we manage and GRI disclosures

The Bank has identified matters mapped into the blocks relating to the high importance to stakeholder and high and medium importance to the Bank under both opportunities to be capitalised and risks to be managed in the Materiality Matrix shown above as material topics.

Table – 04: **Material topics, risks, opportunities, how we manage and GRI disclosures**

| Material matters | Risks | Opportunities | How we manage | GRI disclosure |
|---|---|---|---|---|
| Policy inconsistency 1 | Difficulties encountered in the process of planning and budgeting and risk of being unable to comply with regulatory requirements, leading to strategic risks. | | Increasing the stress levels of the parameters used for and frequency of stress testing.<br>Frequently reviewing strategies and goals against changes in the external environment | GRI 201: Economic Performance<br>GRI 207: Tax |
| Economic slowdown 2 | Stifled business growth affecting value creation and resulting disappointment among the stakeholders. | Being prepared to meet the pent up demand that could arise when the situation comes back to normalcy. | Being alert to the developments and maintaining fundamentals to exploit opportunities when they come. | GRI 201: Economic Performance |
| New regulations, compliance requirements, and directives 5 and 12 | Increased costs in implementation, modification, and monitoring of process and the risk of not being compliant. | Good governance is the bedrock of a sustainable business and helps boost stakeholder confidence. | Bank is committed to being compliant to the letter and spirit of rules and regulations and believes in commitment to good governance provides a strong footing for sustainable growth. Please refer section on "Annual Corporate Governance Report" on pages 154 to 167. | GRI 205:<br>Anti-corruption<br>GRI 206: Anti-competitive Behaviour |
| Transparency and accountability 6 | Non-disclosure of adequate information may give rise to reputation risks and regulatory pressures.<br>Increased demand for forward looking strategic direction by investors over conventional reporting of past performance. | Transparency breeds extra assurance on the Bank, creates trust, leverages faith that will be seen in an upsurge of stakeholder engagement. It will also help reduce risks of unwarranted suspicion and help achieve faster resolution of issues and reputation related risks. | Bank's approach on transparency and accountability is discussed in detail on the section on "Annual Corporate Governance Report" on pages 154 to 167. | GRI 205: Anti-corruption<br>GRI 207: Tax |
| Downgrading of sovereign rating 12 | Reduction of international trade transaction volumes and hampers the ability to raise foreign currency in the international market | Healthy mix of foreign currency portfolios and Bank's regional presence supporting foreign currency liquidity supports Bank's ability to sustain its foreign currency transactions. | Bank's strength in the foreign currency mix in the balance sheet, built over the years and our regional presence has supported sustain our foreign currency operations. the section "Managing and Funding Liquidity" on page 64 provides as insight how the Bank managed the impacts of this material aspect. | GRI 201: Economic Performance |
| Asset growth and asset quality 15 | As a financial intermediary, Bank's value creation depends heavily on its ability to gear its capital in terms of assets and the quality of those assets. Inability to grow assets and deterioration in asset quality will lead to regulatory issues, stifled business growth and disappointment of stakeholders. | Growing the asset base and improving asset quality by strengthening credit evaluation and post disbursement monitoring mechanisms, using predictive capabilities. | The Bank implemented an Early Warning Signals system with predictive capabilities that can possible deterioration in asset quality 9-12 months in advance. | GRI 201: Economic Performance |
| Changing customer expectations 16 | Customers, millennial in particular tend to value simplicity, convenience and experience above everything else in their interactions with the Bank, creating a risk for the Bank in maintaining customer loyalty by providing its services in a conventional manner. | Augmenting customer experience to capture the new age customers by investing in state-of-the-art technologies to replace legacy systems and reskilling staff for the digital age. | Investing in new technologies, implementing the Digital Road Map and continuous development of staff knowledge on emerging technologies. | GRI 203: Indirect Economic Impacts |
| Migration towards digital platforms 17 and 39 | Failure to migrate to digital platforms and deploy new technologies such as AI, Robotics, blockchain etc. will affect customer service and their experience as well as operational efficiency. | Migration to digital platforms and deploying new technologies such as AI, Robotics, blockchain etc . will augment customer service and their experience as well as operational efficiency. | The Bank has introduced many digital platforms and apps to suit the divergent customer base of the Bank and is gradually introducing new technologies for its internal operations. | GRI 203: Indirect Economic Impacts |

| Material matters | Risks | Opportunities | How we manage | GRI disclosure |
|---|---|---|---|---|
| Import restrictions 19 | Curtailed business opportunities and less fee-based income from capital friendly international trade related businesses. | Gearing to exploit the pent up demand that may come up when restrictions are relaxed. | Minimising the impact by canvassing customers from industries / sectors who are not affected by the import restrictions. Diversifying the business operations. | GRI 201: Economic Performance |
| Cyber security 20 | Cyber threats continue to increase globally and the need to protect the integrity and privacy of data becoming important than ever before. The pandemic has fuelled the risk of cyber attacks and thefts. | Having a robust cyber security programme boosts customer confidence in embracing and using digital platform and provides a distinctive advantage over competition in digital banking space. | A high importance is placed on this critical aspect and is always on the toes. Internationally recognised certifications we hold vets the robustness in our security systems. For more details please refer the section "IT Risk" in Risk Governance and Management report on pages 224 and 225. | GRI 418: Customer Privacy |
| Productivity 21 | With the conventional business model, the profitability of the financial services industry has been declining globally over the past several decades. Productivity is an important aspect that will help to improve profitability. Failure to adopt mechanisms such as automation and digitalisation will make the Bank less attractive to most of the stakeholders. | Enhancing profitability through investing in automation and digitalisation to enhance operational efficiency and improve profitability and attractiveness of the Bank to them. | Investing in new technologies, implementing the Digital Road Map and continuous development of staff focussing on digital channels to facilitate the entire customer journey. | GRI 203: Indirect Economic Impacts |
| Talent management 22 | Among the risks brought about by the pandemic and the aftermaths of the political and economic unrest are the high staff attrition, health and safety of the workforce, sustaining critical operations, sudden adjustments in to new working conditions top the list.<br>Staff retention and recruitment becoming more challenging. | Adoption of digital means for remote working results in enhancing technology related skills and prompt rethinking of working conditions that may improve work-life balance and reduction in costs. | The Bank has given utmost priority when it comes to investing in employee training and development and placing safety of employees first by providing a safe working environment. Deviating from the conventional practices, the Bank is successfully experimenting newer methods and levels to recruit staff such as recruiting more Management Training, recruiting A/L students awaiting results as banking interns, creating new categories of employment for certain specialised categories of staff such as IT staff. For more details please refer section "Operational Excellence" on pages 73 and 74. | GRI 404: Training and Education<br>GRI 405: Diversity and Equal Opportunity<br>GRI 403: Occupational Health and Safety |
| Need to reskill employees 23 | The Bank being unable to meet the stakeholder expectations, millennial customers in particular, due to the staff not being reskilled to keep abreast with the latest technologies. | Proper reskilling of staff and helping and encouraging them to keep abreast with the latest technologies will help to delight customers and create "moments of truth". | Continuous training and development of staff and incentivising them to keep abreast with technologies used in the Bank. | GRI 401: Employment |
| Health and safety 24 | Inability to ensure health and safety of staff will affect their work life balance and productivity and operational efficiency of the Bank. It may also lead to reputational risk. | Ensuring health and safety of staff will help the Bank to improve its efficiency of operations, productivity and profitability. | Promoting the importance of work life balance, assigning to work places closer to the homes of staff members, providing medical and transport facilities at the expense of the Bank during COVID-19 outbreak and reimbursing medical expenses. | GRI 401: Employment<br>GRI 403: Occupational Health and Safety |

| Material matters | Risks | Opportunities | How we manage | GRI disclosure |
|---|---|---|---|---|
| Need to commit to SDGs 28 | As a national bank, failure to commit and work towards UN Sustainable Development Goals will seriously affect the sustainability of the banking operations and also cause reputational risk. | Commitment to UN Sustainable Development Goals will improve the sustainability of the banking operations and minimise reputational risk. This also makes the Bank's business model future-ready | Bank is explicitly committed and working towards 7 out of the 17 UN Sustainable Development Goals. Strategic initiatives in this regard are stemming from the Bank's Sustainability Framework and are built into the strategy. | GRI 203: Indirect Economic Impacts |
| Pandemics affecting global trade and economies 34 | Stifled business growth, curtailed business opportunities and less fee-based income from capital friendly international trade related businesses affecting value creation and resulting disappointment among the stakeholders. | | Diversifying the business into industries and sectors that are less likely to be affected. | GRI 201: Economic Performance |
| Drug pedalling and drug and alcohol addiction 35 | Failure to detect instances of money laundering and related compliance and reputational risks. Also, drug and alcohol addicts can cause an increase in security related risks. | | Compliance with all the applicable rules and regulations. Continuous strengthening of systems and procedures relating to detection and prevention of the use of the Bank for money laundering operations. | GRI 205: Anti-corruption |
| Climate Change 36 | Increasing frequency and magnitude of natural disasters may affect infrastructure, banking operations, business growth, operating costs, asset quality, and pause reputational risks. | Responsible lending through Social and Environment screening may help reduce reputational risks and maintain asset quality. | Though the Bank's own footprint is minimal, it endeavours to minimise same through adopting green processes, moving to green buildings and generating solar energy for it operations. However, the Bank could make a bigger impact through its lending to renewal energy generation, greening of processes, and screening for environmental impacts on businesses we lend to. Further, moving towards climate change mitigation procedures, such as reforestation with saplings, remote and hybrid work options lessening the commuting-dependent emissions are also helpful in this regard. How we do this is detailed in the section on "Climate Position Statement" on pages 77 to 79. | GRI 302: Energy<br>GRI 305: Emission |
| Being socially responsible 37 | The world, increasingly ideological, will mandate that the Bank focuses on diversity factor to ensure that social justice, inclusivity and stakeholder welfare as apex issues. | Collaboration with Fin-Tech could open up new avenues to reach untapped markets and evolve alongside changing customer expectations.<br>Advancement in new technologies such as Artificial Intelligence, Robotics, and Block Chain could be used to boost operational excellence. | We believe in sharing the value created with the society we operate. Hence, the Bank has set up a CSR Trust for undertaking projects for improving the quality of education, health, culture & heritage, and preservation of environment. Please refer section "Community Sustainability on pages 90 to 99. | GRI 203: Indirect Economic Impacts |
| Partnerships for goals 38 | Interruption to critical services could disrupt smooth execution of the Bank's operations. Unorthodox competition, financial disintermediation, and failure to collaborate may threaten the conventional business model. | Increasing awareness and tendency towards renewable energy and greening of buildings and processes bring about green financing opportunities. Initiatives in countering impacts of carbon emission. Adopting a collaborative approach to co-create and offer products and services. | The Bank's continued it efforts on building win-win partnerships and constantly seek for avenues to leverage evolving new technologies for the development of our own products, services, and delivery, described more in section on "Leading through Innovation" on pages 70 to 73. | GRI 206: Anti-competitive Behaviour |

# Operating context and outlook

This Annual Report is meant to be read in the backdrop of the global and local developments elaborated below that contextualise the Bank's performance.

## Global economy

The global fight against inflation, Russia's war in Ukraine, and a resurgence of COVID-19 in China weighed on global economic activity in 2022, and the first two factors are likely to continue to do so in 2023. Despite these headwinds, real GDP was surprisingly strong in the third quarter of 2022 in numerous economies, including the United States, the euro area, and major emerging market and developing economies. The sources of these surprises were in many cases domestic.

However, in the fourth quarter of 2022, this uptick is estimated to have faded in most though not all major economies. US growth remained stronger than expected, with consumers continuing to spend from their stock of savings, unemployment near historic lows, and plentiful job opportunities. But elsewhere, high-frequency activity indicators (such as business and consumer sentiment, purchasing manager surveys, and mobility indicators) generally point to a slowdown.

Economic activity in China slowed in the fourth quarter of 2022 amid multiple large COVID-19 outbreaks in Beijing and other densely populated localities.

Global slowdown in economic activities, reduced global trade and the drop in shipping charges have reduced international commodity prices.

Overall, financial stability risks remain elevated as investors reassess their inflation and monetary policy outlook. Global financial conditions have eased somewhat, driven largely by changing market expectations regarding the interest rate cycle. While the expected peak in policy rates has risen, markets now also expect the subsequent fall in rates will be significantly faster. As a result, global bond yields have recently declined, corporate spreads have tightened, and equity markets have rebounded. That said, central banks are likely to continue to tighten monetary policy to fight inflation, and concerns that this restrictive stance could tip the economy into a recession have increased in major advanced economies.

Table – 05: **World economic outlook projections (% change)**

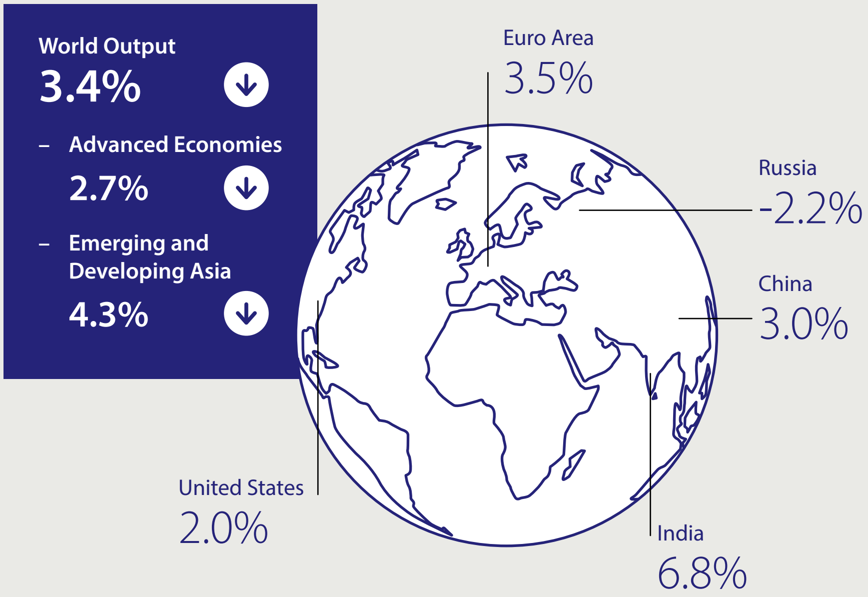
| | 2021 | 2022 Est. | 2023 Proj. |
|---|---|---|---|
| World Output | 6.2 | 3.4 | 2.9 |
| Advanced Economies | 5.4 | 2.7 | 1.2 |
| United States | 5.9 | 2.0 | 1.4 |
| Euro Area | 5.3 | 3.5 | 0.7 |
| Emerging and Developing Asia | 7.4 | 4.3 | 5.3 |
| China | 8.4 | 3.0 | 5.2 |
| India | 8.7 | 6.8 | 6.1 |
| Russia | 4.7 | -2.2 | 0.3 |
| World Trade Volume (goods & services) (*) | 10.4 | 5.4 | 2.4 |
| Oil (**) | 65.8 | 39.8 | -16.2 |

(*) Simple average of growth rates for export and import volumes (goods and services).

(**) Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average assumed price of oil in US dollars a barrel, based on futures markets (as of November 29, 2022), is USD 81.13 in 2023 and USD 75.36 in 2024.

*Source: IMF World Economic Outlook – January 2023*

Figure – 07: **World economic outlook projections (% change)**



## Sri Lankan economy

### Background

The year 2022 was marked by unprecedented challenges caused by political instability, social unrest and worst economic crisis since independence, leading to sharply deteriorated macroeconomic fundamentals which were made worse by the country's sovereign default. The impact reverberated across all industries and most significantly the banking industry.

The country plunged into a crisis situation during the year with the loss of tourism revenue following the 2019 Easter Sunday attacks and later the COVID-19 pandemic, compounded by tax cuts and years of economic mismanagement. Sri Lanka's access to international capital markets was lost in 2020, prompting a decline of international reserves to critically low levels while external debt repayments and a widening current account deficit led to foreign exchange (FX) shortages. Amid depleted reserves, Sri Lanka announced an external debt service suspension in April 2022 and later appointed legal and financial advisors to support debt restructuring.

Deep-rooted structural problems and economic mismanagement over several decades culminated in severe economic imbalances and the impact of these unprecedented economic tensions were felt forcefully during the year under consideration.

The crisis was deepened by a notable reduction in agricultural production caused by the initial ban on the import and use of chemical fertilisers without adequate preparation and support to farmers for the agricultural transition.

Above led to the inability of the country to pay for critical imports, such as fuel, medicine and gas. The public faced soaring inflation recording an all-time high of 73.7% (NCPI), a rapidly depreciating currency and a contraction in economic growth. This situation led to political unrest and mass protests, culminating in a change in Government in July 2022.

With the pre-emptive default of foreign debt service obligations, international sovereign credit rating agencies continued to downgrade the sovereign credit ratings of Sri Lanka during the first half of 2022.

As the Sri Lankan crisis deepened, the Government opted to seek financial assistance from the IMF by way of an Extended Fund Facility (EFF) arrangement and the authorities were able to reach a staff-level agreement in September 2022, on a 48-month EFF programme with total funding amounting to USD 2.9 Bn.

However, financing assurances to restore debt sustainability from official creditors and making a good faith effort to reach a collaborative agreement with creditors are crucial before the IMF can provide financial support.

**Growth:** As per the GDP estimates of the World Bank, Sri Lankan economy is estimated to have contracted by 9.2% YoY in 2022, including all key sectors amid shortages of inputs and supply chain disruptions.

**Inflation:** YoY inflation reached unprecedented levels in 2022, largely due to high food inflation and drastic increase in energy prices. This also reflects the impact of rising global commodity prices, monetisation of the fiscal deficit and currency depreciation.

However, both official Consumer Price Indices (CCPI & NCPI), which moved on an accelerated pace, moderated towards the end of October 2022, and continued to decline in December 2022 for the third consecutive month, supported by subdued aggregate demand resulting from tight monetary and fiscal policies, expected improvements in domestic supply conditions along with the favourable statistical base effect. Central Bank envisages inflation to stabilise by the end of year 2023.

**Interest Rates:** The Central Bank tightened monetary policy significantly in 2022 with a view to countering rising inflationary pressures and anchoring inflation expectations. Underpinned by the significant liquidity deficit in the domestic money market and reflecting the faster pass through of tight monetary policy, market interest rates rose notably during 2022. However, market interest rates have begun to adjust downward in response to the measures adopted by the Central Bank during the latter part of 2022 and the CBSL is of the view that the maintenance of the prevailing tight monetary policy stance is imperative to ensure that monetary conditions remain sufficiently tight to rein in inflationary pressures. A gradual relaxation of the current policy, especially the interest rates, can be expected towards end of 2023.

Credit extended to the private sector by commercial banks continued to contract in response to the tight monetary conditions and the prevailing economic conditions.

**Exchange rate:** CBSL allowed the Sri Lankan Rupee to float on March 08, 2022 and returned to a permissible band from mid-May 2022 after the currency depreciated from Rs. 200 to Rs. 356 since the floating. The Sri Lankan Rupee further depreciated against the US Dollar to Rs. 367 by the end of 2022.

**External Trade:** The merchandise trade deficit is estimated to have contracted significantly in 2022, compared to the immediately preceding years, owing to an improvement in export earnings and a substantial compression of import expenditure. Gross Official Reserves were estimated at USD 1.9 Bn. as of end 2022, including the swap facility from the People's Bank of China (PBOC), equivalent.

Meanwhile according to the World Bank, the ongoing economic crisis is estimated to have doubled the poverty rate from 13.1% to 25.6% between 2021 and 2022, increasing the number of poor people by 2.7 million.

*(Source: CBSL, World Bank & IMF)*

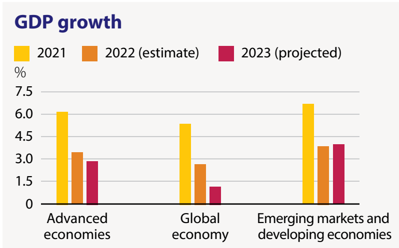
## Bangladesh economy

The Bangladesh economy has maintained a solid track record of growth and development thanks to stable macroeconomic conditions, consistent performance in readymade garment exports and robust inflows of remittances. Continuing on the rebounded growth in 2021, the economy is projected to have expanded by 7.6% in 2022 and is expected to grow by 8.5% in 2023. Rising commodity prices and a surge in imports causing a widening Balance of Payment deficit and accelerated inflation, growing fear of wider war between Russia and the West are some of the headwinds likely to affect growth projections.

Bangladesh has progressed in many areas with human development outcomes improving along many dimensions. With an HDI score of 0.655, Bangladesh moved up four notches to 129th place in the UNDP's Human Development Report in 2021, surpassing South Asian rivals India, Nepal, Pakistan, and Afghanistan. Bangladesh, which was among the poorest nations in the early 1970s, advanced to lower-middle income level in 2015 and is now on the verge of achieving middle-income status with a GDP of USD 461 Bn.

With weather being an important factor in its development objectives, Bangladesh accords priority to climate change as it is one of the most vulnerable countries to extreme weather events. Increased investments in adaptation are being made to make the country more resilient to natural disasters.

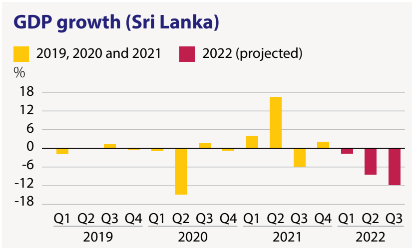
*(Source: World Bank & IMF)*

| | Global | |
|---|---|---|
| | **2022** | **2023** |
| **GDP growth** | Global growth is estimated to have slowed down to 3.4% in 2022 compared to 6.2% in 2021.   | Global growth is poised to further slowdown this year to 2.9% from 3.4% in 2022. Growth will remain weak by historical standards, as the fight against inflation and Russia's war in Ukraine weigh on activity. (IMF) |
| **Inflation** | Global Inflation rose throughout almost all economies and was recorded at 8.8% in 2022. Soaring inflation in 2022 reflected a combination of demand and supply factors. | Global inflation is expected to fall from 8.8% in 2022 to 6.6% in 2023. In the face of substantial monetary tightening, slowing activity, easing supply chain disruptions, and moderating prices for many non-energy commodities, both core and headline inflation are expected to decline. |
| **Interest Rates** | Worldwide, central banks hiked Interest rates in response to persistent elevated inflation. | If inflation remains persistently above target, central banks around the world would likely raise interest rates more quickly and to higher levels than currently expected and keep them elevated for longer to re-anchor expectations and return inflation to target. |
| **Exchange Rate** | 2022 was a historic year. The US dollar strengthened against nearly every other major currency to levels not seen in decades. | US dollar likely to remain strong in 2023 amid recession fears. |
| **Trade** | Global trade growth was reduced by 5.4% in 2022 compared to a growth of 10.4% in 2021, mainly due to China's slowdown. | World trade growth is expected to decline in 2023 by 2.4%, despite an easing of supply bottlenecks. |
| **Sri Lanka – Fiscal Consolidation** | | |

## Sri Lanka

### 2022

In Sri Lanka, the economy is estimated to have contracted by 9.2% in 2022.




### 2023

Sri Lanka's output is expected to contract again in 2023, by 4.2% owing to ongoing foreign currency shortages, the effects of higher inflation, and policy measures designed to restore macroeconomic stability. (WB)

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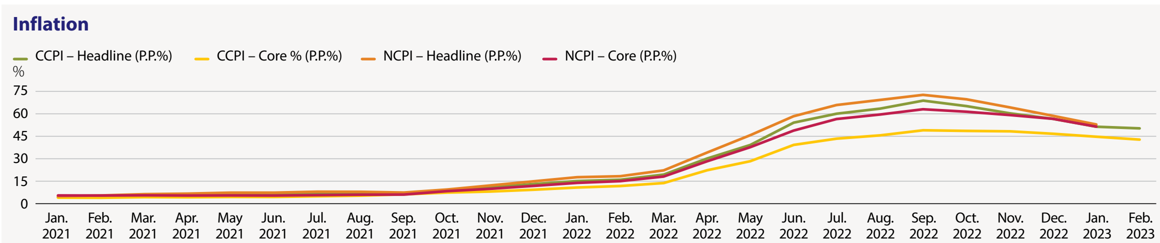
**2022:** In Sri Lanka, inflation reached unprecedented levels in 2022. Headline inflation, as measured by the Colombo Consumer Price Index was recorded at 57.2% YoY in December 2022.

**2023:** In Sri Lanka, the recent downward adjustment in inflation rates is expected to continue through 2023, supported by subdued aggregate demand resulting from tight monetary and fiscal policies, passthrough of easing global commodity prices to domestic prices, along with the favourable statistical base effect.

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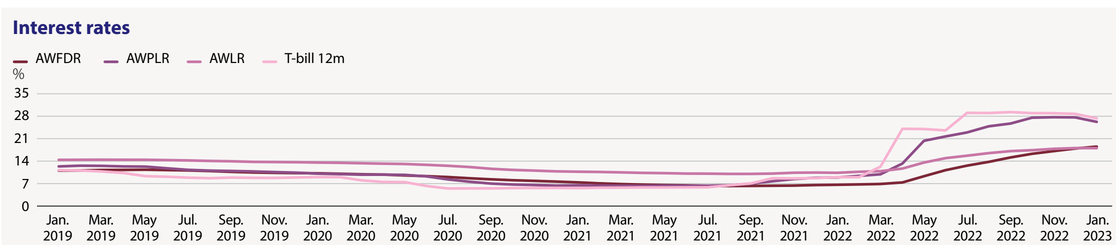
**2022:** The year 2022 saw a sudden surge in policy rates (SDFR and SLFR) which increased by 700 basis points to 13.5% and to 14.5% in April 2022, mainly to ease the country's inflationary pressure.

**2023:** With the anticipated gradual relaxation of the monetary policy, the overall interest rate regime is expected to come down from mid 2023.

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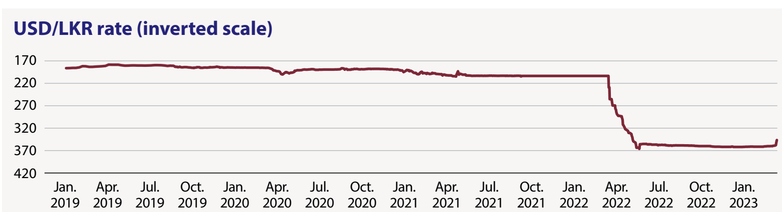
**2022:** The Sri Lankan Rupee depreciated against the US Dollar by nearly 81% in the year 2022.




**2023:** In Sri Lanka, improved workers' remittances, tourism earnings, export earnings and expected IMF funding will minimize the depreciation pressure. However, import curtailment would be further needed to keep the exchange rate at desired levels. Monetary tightening by central banks of developed economies would also pose challenges to emerging market currencies.

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**2022:** The cumulative deficit in the Sri Lankan trade account during January-November 2022 recorded at USD 4,839 Mn., a decline from USD 7,054 Mn. recorded over the same period in 2021.

**2023:** Sri Lanka's government decision to gradually relax the present import restrictions with a view of containing supply side issues could intensify the trade deficit. Hence, much will depend on the performance of exports. However, apparel exports are expected to dip in the short to medium term sighting a drop in apparel orders due to global recessionary fears.

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**2022:** The budget deficit expanded to Rs. 902.7 Bn. (4.0% of projected GDP) during the 1H of 2022 from Rs. 780.2 Bn. (4.4% of GDP) recorded in the corresponding period of 2021.

**2023:** Sri Lanka aims to lower the budget deficit from 9.8% of GDP in 2022 to 7.9% of GDP in 2023, factoring in high revenue growth and a pickup in spending. Sri Lanka also aims to raise government revenue to 15% of GDP by 2025 and reduce public sector debt to no more than 100% of GDP over the medium term, in line with the IMF's target of a primary surplus of 2.3% of GDP by 2025.

## Banking sector

Table – 06: **The Bank's performance compared to the Banking Sector**

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Banking Sector (*) End September 2022 | Commercial Bank 2022 | Market share % Commercial Bank | Banking Sector (*) End 2021 | Commercial Bank 2021 | Market share % Commercial Bank |
| **Assets and liabilities (Rs. Tn.)** | | | | | | |
| Gross loans and advances to other customers | 11.373 | 1.220 | 10.72 | 10.480 | 1.079 | 10.29 |
| Deposits | 14.929 | 1.914 | 12.82 | 12.671 | 1.443 | 11.39 |
| Total assets | 19.313 | 2.426 | 12.56 | 16.924 | 1.949 | 11.52 |
| **Profitability (%)** | | | | | | |
| Return on Assets (ROA) – before tax | 0.96 | 1.03 | | 1.62 | 1.74 | |
| Return on Equity (ROE) | 8.45 | 12.46 | | 14.52 | 14.66 | |
| Net Interest Margin (NIM) | 4.15 | 3.74 | | 3.44 | 3.51 | |
| Cost to income ratio (excluding taxes on financial services) | 29.58 | 26.29 | | 48.09 | 31.61 | |
| CASA ratio | 33.13 | 38.36 | | 36.55 | 47.83 | |
| **Assets quality (%)** | | | | | | |
| Stage 3 loans[(a)] to total loans and advances[(b)] | 10.94 | 9.41 | | N/A | 7.33 | |
| Net Stage 3 loans[(c)] to total loans and advances[(b)] | 10.82 | 5.25 | | N/A | 3.85 | |
| Stage 3 impairment coverage ratio[(d)] | 43.59 | 39.60 | | N/A | 42.76 | |
| Total impairment coverage ratio[(e)] | 7.260 | 7.32 | | N/A | 5.94 | |
| Non-performing loans to total loans and advances | N/A | N/A | | 4.47 | 4.62 | |
| Net Non-performing loans to total loans and advances | N/A | N/A | | 1.66 | 1.44 | |
| Specific provision coverage ratio | N/A | N/A | | 64.02 | 68.93 | |
| **Capital adequacy (%)** | | | | | | |
| Core capital (Tier 1 capital) adequacy ratio | 12.465 | 11.389 | | 13.153 | 11.923 | |
| Total capital adequacy ratio | 15.322 | 14.657 | | 16.548 | 15.650 | |
| **Liquidity (%)** | | | | | | |
| Statutory liquid assets ratio "SLAR" (DBU) | 27.83 | 35.01 | | 33.77 | 38.73 | |
| Statutory liquid assets ratio "SLAR" (OBC) | 39.58 | 32.37 | | 33.99 | 36.39 | |
| Credit to total deposits | 76.18 | 63.71 | | 82.70 | 74.75 | |

*[(*) Banking Sector = Licensed Commercial Banks + Licensed Specialised Banks (Source: CBSL)]*

*Notes*
*(a) Excluding undrawn portion*
*(b) Total loans and advances including Stage 3 loans*
*(c) Net of Stage 3 impairment (including undrawn portion)*
*(d) The ratio of Stage 3 impairment to Stage 3 loans*
*(e) The ratio of total impairment to Total loans and Receivables*

With these adverse macroeconomic conditions, the Banking Sector too faced many challenges which, among others, included maintaining a sustainable loan growth, non-payment of USD bond exposures by the government, fuel shortage, deteriorating asset quality requiring higher impairment charges, declining CASA ratio, drop in trade finance volumes, increasing costs driven largely by a depreciating LKR, inflation an, staff turnover led by a surge in talent migration etc.

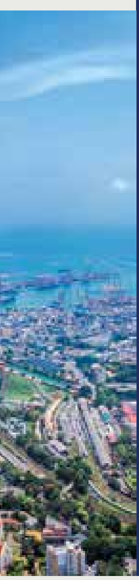
Amidst many business difficulties, both internal and external, the capital adequacy ratios of banks came under severe stress. Additionally, Financial Year 2022 witnessed banks being weighed down by unprecedented liquidity challenges, both in LKR and FCY. Banks have had to revisit the liquidity thresholds and the related contingency plans to stay relevant in this economic scenario.

The year 2023 too is expected to be specked with many challenges, the biggest being the looming debt restructuring and its expected impact on the banks' capital and liquidity. The economic challenges would undoubtedly cascade down to multiple industries and therefore, maintaining the portfolio quality in advances would be an uphill task which may lead to a surge in impairment provisioning.

## Challenges faced by banks

### Some of the main challenges faced by the banks in 2022

- Frequent disruptions to overall banking operations due to COVID-19 outbreak, power outages, fuel shortages, political & social unrest etc.
- Regulatory restrictions/Government policy changes
- Banks' access to foreign-currency funding was constrained by the sovereign default.
- Downgrading of the country rating severely restricted banks' accessibility to foreign currency and counterparty transactions in relation to international trade.
- Advances growth was affected by increased interest rates, regulatory restrictions on imports & capital constraints.
- Deteriorating asset quality.
- Deposits growth was affected by competitiveness in Interest rates, low disposable income of population and higher return on repo investments.
- Declining CASA ratio.
- Higher operational costs due to high inflation, rupee depreciation, changes in tax structure & unexpected expenses.
- Decline in value of the G-sec portfolio.
- New customer canvassing initiatives were at a minimal, due to the adverse economic conditions.
- Postponements of capital investment decisions due to negative economic outlook.
- Growth in deposits in the absence of lending opportunities posed challenges in managing excess liquidity.
- Foreign currency liquidity challenges faced due to black/grey market that prevailed in 2022.



### Possible challenges and their impact on banks for 2023

| Challenges | Possible impact on the banks |
|---|---|
| **Economic challenges** | |
| • Uncertain macro-economic conditions<br>• Continuous increase in cost of living<br>• Global recession and sanctions | • Difficulty in sustaining of strategies<br>• Low demand for credit and threat of facilities moving to arrears/ Non-Performing Credit Facilities (NPCF)<br>• Reduction in potential export/import volumes |
| **Regulatory challenges** | |
| • Frequent changes in import export regulations<br>• Extension of debt moratorium for businesses and individuals<br>• Foreign-currency debt restructuring<br>• Probable local-currency debt restructuring (tenor extensions, coupon cuts, haircuts etc.)<br>• With the expectation of a possible debt restructuring, banks have had to make extra impairment provisions<br>• Increased taxation | • Loss of business opportunities<br>• Deterioration in asset quality<br>• Increase in impairment<br>• Decline in profitability<br>• Stress on capital adequacy and liquidity |
| **Challenges faced by customers** | |
| • Borrowers, both individuals and businesses, contend with elevated interest rates and low debt servicing capability<br>• Low disposable income due to inflation and high proportion of income spent on essentials<br>• Moratoriums coming to an end<br>• Postponing new investments and business downsizing<br>• More demand for working capital financing due to stress in supply chains, debt recoveries, rupee depreciation etc. | • Increase in NPCF and Impairment costs<br>• Missed opportunity in lending to potential new areas (i.e., exports) and lending for business expansions<br>• Further stress on liquidity and maintaining a quality loan book |
| **Other** | |
| • Alarming increase in resignations among "Millennials" and "Gen Zs", for migration purpose<br>• Uncertainty in relation to political stability, revival of key businesses/industries etc.<br>• SMEs will struggle to survive for reasons beyond their control, with mass job losses in the near future being a possibility. | • Challenges to have smooth operations<br>• Restricted lending opportunities due to uncertainties<br>• SMEs are a very important customer segment of the banks. Therefore, bank lending will be adversely affected with possibility of a rise in NPCF. |

# Business model for sustainable value creation

The Business Model of the Bank for Sustainable Value Creation is built on the Bank's Sustainability Framework (Figure 08) which addresses sustainability through a 3-pillar approach. It refers to two closely interconnected, mutually inclusive dimensions of sustainability i.e. ensuring the ability of the Bank to sustain its enterprise as a going concern as far into the future as can be imagined and taking care of the society and the environment, both built into the strategy through an integrated approach.

# Bank's Sustainability Framework

Figure – 08: **The Bank's Sustainability Framework**

**PURPOSE**

To be a responsible financial services provider by enabling and empowering people, enterprises and communities towards environmentally-responsible, socially-inclusive and economically-enriching growth.

**Guiding Principles and Standards**

- CBSL Roadmap for Sustainable Finance in Sri Lanka
- CBSL Direction on Sustainable Finance Activities
- Sustainable Banking Principles of Sri Lanka Banks' Association
- United Nations Global Compact Principles
- UN Sustainable Development Goals

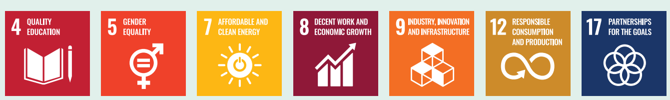
**3-Pillar Approach to Sustainability**

| Sustainable Banking | Responsible Organisation | Community Sustainability |
|---|---|---|
| Responsible Financing | Green and Safe Workplace | Social Engagement |
| Financial Inclusion | Workplace Culture | Environmental Engagement |
| Sustainable Products and Services | Sustainable Supply Chain | |

**Memberships and Affiliations**

- Sri Lanka Banks' Association Sustainable Banking Initiative
- UN Global Compact Sri Lanka
- Biodiversity Sri Lanka
- United Nations Development programme

**UN Sustainable Development Commitment**




**Governing Policies: SEMS Policy | Environment & Social Policy**

**Governing Committees: Executive Sustainable Committee | Sustainability Working Committee**

With some extent of overlapping, first two pillars – Sustainable Banking and Responsible Organisation – will take care of economic aspects while the third pillar – Community Sustainability – takes care of social and environmental aspects, in the best interest of all the stakeholders at all times.

Leveraging the Bank's strengths for long term value creation, the robust business model of the Bank revolves around the two primary activities of financial intermediation and maturity transformation, drawing "inputs" from Financial, Manufactured, Intellectual, Human, Social and Network, and Natural Capitals and converts such inputs to "outputs", leading to outcomes for the benefit of the stakeholders who own and provided input capitals. One of the content elements in an integrated report as per the International Integrated Reporting Framework is the disclosure of the business model. Accordingly, a narrative guide to the visual depiction of the Business Model on pages 54 and 55 and the Statement of Financial Position on page 239 is given below.

### Inputs

A large number of stakeholders provide the resources or inputs required for the Bank to undertake its activities, identified in the Business Model as "capitals" from which the Bank derives value. Besides the financial capital reflected in the Statement of Financial Position, these input capitals include the institutionalised knowledge, the brand equity and reputation the Bank has built over years and the strength of its stakeholder relationships which might also be termed as "off-balance sheet" or "hidden" capitals. These inputs are then deployed in the Bank's business activities – literally capitalised – to generate outputs which are the Bank's key products & services and outcomes which is the value created by the Bank for itself and for its stakeholders as a consequence of the outputs. As demonstrated in the Business Model on page 54, this is a dynamic process where capitals are constantly circulating and value is continuously being created and transformed. This Integrated Report has captured the story of this dynamic process across year 2022 and a snapshot of the Bank's capital position in terms of several indicators under each capital is given on pages 56 and 57.

### Financial intermediation and maturity transformation

As a commercial bank, the Bank's business model is centered on two key value-creating activities: financial intermediation and maturity transformation. Financial intermediation is the process by which the Bank acts as a middleman between various stakeholders, depositors and borrowers in particular, facilitating the conversion of deposits into investments and other assets. Maturity transformation is the process of transforming short-term funds into long-term lending and investments. The efficient allocation of financial resources underlying these two activities is essential for the economic development of the country at large.

### Statement of capital position

The activities undertaken by the Bank to advance financial intermediation and maturity transformation, as well as the resultant interactions, interconnectivities, and tradeoffs that occur among the capitals in this dynamic process, serve to bolster the capitals and reflect the value created over the year, as shown in the Statement of the Capital Position of the Bank at the beginning and the end of year 2022.

The two broader categories of income – net interest income from fund-based operations and fee and commission income from fee-based operations – enable the Bank to enhance its financial capital. In addition, the value created through the delivering value to and deriving value from the various other stakeholders are reflected in the improved positions of the other capitals. In fund-based operations, money is raised from depositors and borrowed from other sources in order to lend and invest; this process generates interest income and incurs interest costs. The resulting net interest income compensates the Bank for credit risk, funding risk, and interest rate risk. All other services offered by the Bank that do not involve funds are fee-based services. Demonstrating efficient financial intermediation, the Bank generated 61.51% of its total operating income by way of net interest income (2021 – 70.69%).

### Gearing

Financial intermediation and maturity transformation make the Bank's business model to be very different from that of other corporates. Being a commercial bank with the majority of funding coming from deposits from customers, the Bank resorts to the process of gearing to make up for the relatively low Return on Assets (ROA) and generate returns to investors that are acceptable in terms of Return on Equity (ROE). Gearing involves expansion of business volumes by growing deposit base and securing funding from other sources and lending or investing such funds to grow the loan book and investment portfolios on the strength of a given amount of capital.

Gearing is fundamental to the banking business model, allowing banks to handle about 10 times higher business volumes compared to the available equity. What made this possible is the license to mobilise deposits from the public. However, the Bank is cognisant of the fact that gearing exposes the Bank to numerous internal and external risks. Moreover, certain emerging global developments threaten to disrupt this business model. As discussed later in this Annual Report, the Bank has established a sound risk governance and management framework with the necessary Board oversight that has enabled it to successfully manage such risks.

A detailed disclosure on the Bank's capital, risk weighted assets and Capital Adequacy Ratios is given in Annex 2 on pages 411 to 423.

### Stakeholder returns

As shown in Table 07 on pages 56 and 57, the Bank has had a track record of improving its profitability over the years while carefully maintaining gearing at acceptable levels. This profitability reflects the net impact of the value the Bank was able to create by delivering value to and deriving value from its stakeholders. From the investors' perspective, this value creation is reflected in the returns the Bank was able to generate in the form of earnings, dividends, share price appreciation, etc. The Bank's market capitalisation is the highest among banking institutions and ranks twelfth among all companies listed on the Colombo Stock Exchange at the end of 2022. Refer the Investor Relations section for more information on the performance of the Bank's shares on pages 124 to 137.

As a well-established regional bank, while growing organically in Sri Lanka, Bangladesh, the Maldives and Myanmar, the Bank is constantly in search of opportunities to expand inorganic and regional growth, primarily to further diversify its risk exposures and revenue streams geographically, thereby improve the sustainability and long-term value creation of its operations.

# Business model

Figure – 09

## INPUTS

"Raw materials" for the value driver activities drawn from capitals. Please refer page 56 of the Statement of Capital Position for the opening capital position as at January 01, 2022 of different capitals built by the Bank over the past 103 years.

### Financial capital

- Shareholders' funds
- Borrowed funds
- Financial covenants
- Customer deposits
- Subordinated debt

### Manufactured capital

- Property, plant and equipment
- Investments in process improvements
- Information and Communication Technology
- Public goods

### Intellectual capital

- Brand loyalty
- Institutionalised knowledge
- Best practices
- Data analytics
- Trained employees
- Awards and accolades

### Human capital

- Skills and experience
- Competencies
- Creativity
- Committed and loyal employees
- Healthy workforce
- Equal opportunities

### Social & network capital

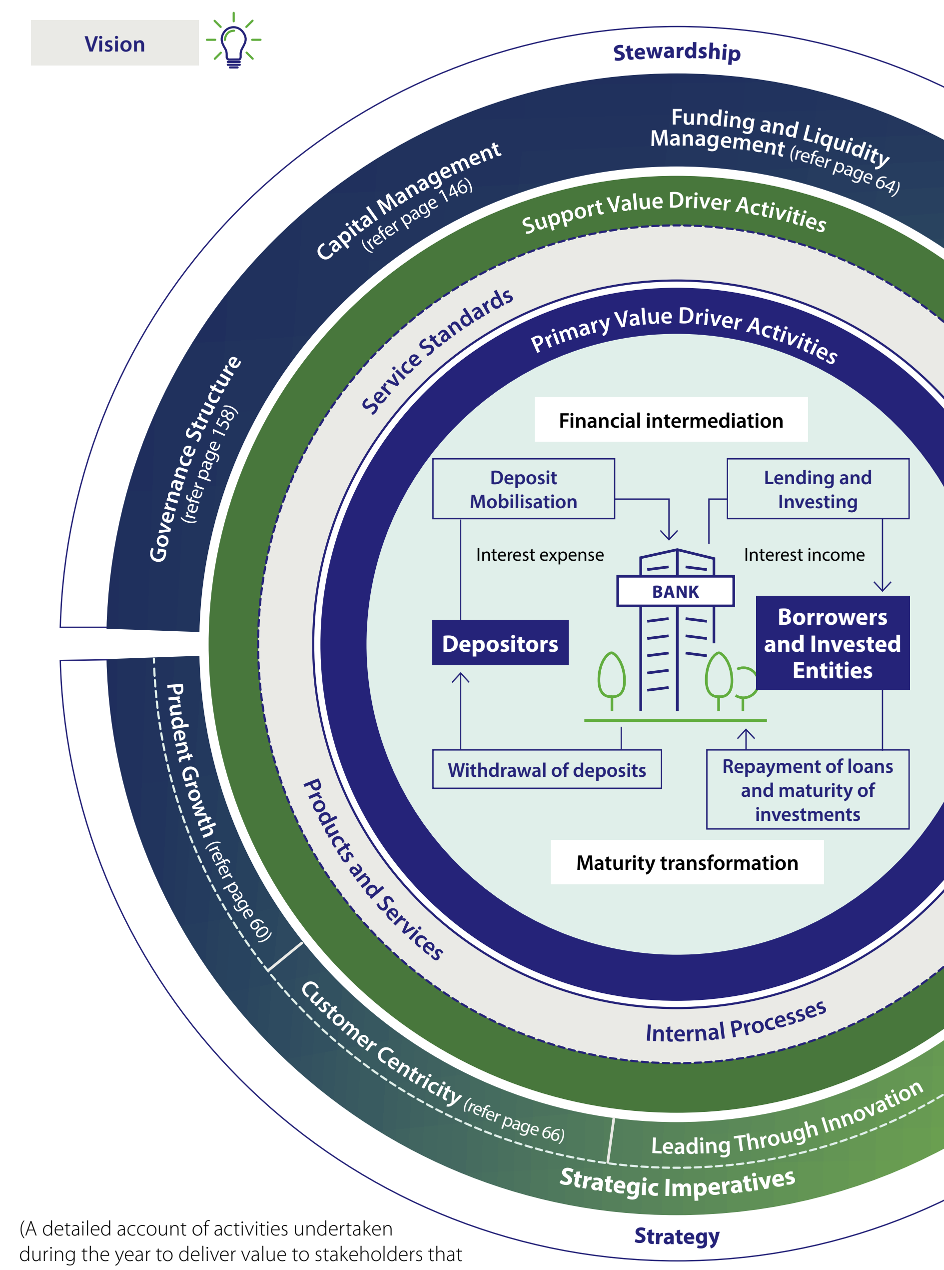
- Services and supplies
- Relationships
- Assurance services
- Collaborations and alliances
- Customers
- Contribution to the Bank's CSR Trust

### Natural capital

- Utilities
- Refinance funding for solar/ digitisation projects
- Social and Environmental Management System (SEMS)

## VALUE DRIVER ACTIVITIES

Include primary, support and other value driver activities that promoted growth, positive stakeholder interactions and minimised risk. It is the inputs from the capitals together with relationships, interactions, interdependencies and trade-offs among capitals that generated outputs, leading to creation of value reflected in capitals.




(A detailed account of activities undertaken during the year to deliver value to stakeholders that enhanced capitals is given in the MD&A on pages 58 to 137)

**Operating Environment that provides context for value creation** (Refer pages 36 to 51)


## OUTPUTS

Products and services and externalities generated through the value driver activities.

- Loans & advances
- Investments
- Deposits
- Forex products
- Transactional banking
- Fee based services
- International Trade related products & services
- Travel-related services
- REPO transactions
- Advisory services

## OUTCOMES

Environmentally-responsible, socially-inclusive and economically-enriching consequences of our activities and outputs manifested in capitals as value created. Please refer page 56 of the Statement of Capital Position for the closing capital position as at December 31, 2022 of various indicators under each of the six capitals.

### Sustainable Banking

- Responsible finance
- Financial Inclusion
- Sustainable products and services
- Prudent growth
- Customer centricity
- Leading through innovations
- Operational excellence
- Digital leadership
- Stability and resilience

Refer page 15

### Responsible Organisation

- Good governance/transparency
- Compliant bank
- Green and safe workplace
- Empowered and engaged staff
- Training & development
- Optimised operations
- Cordial industrial relations
- Workplace culture
- Job security
- Sustainable supply chain

Refer pages 15 and 16

### Community Sustainability

- Social engagement
- Empowered communities
- Affordable and inclusive finance
- Environmental engagement
- Green processes and facilities
- Managing the footprint
- Secure social license

Refer page 16

# Statement of capital position

Table – 07

## Financial capital

| Indicator of value derived | Value derived as at January 01, 2022 | Activities undertaken to create Financial Capital (*) | Value derived as at December 31, 2022 | Growth in value created |
|---|---|---|---|---|
| Total Equity (Rs. Bn.) | 164.894 | Grew the business volumes prudently through robust and efficient financial intermediation and maturity transformation, thereby strengthening the leadership position | 203.699 | 23.53% |
| Deposits from customers (Rs. Bn.) | 1,443.093 | | 1,914.359 | 32.66% |
| Subordinated liabilities (Rs. Bn.) | 38.303 | | 61.401 | 60.30% |
| Borrowings from Banks/Other Borrowings (Rs. Bn.) | 106.364 | | 81.280 | -23.58% |
| CASA Base (Rs. Bn.) | 690.285 | | 734.315 | 6.38% |
| Market capitalisation (Rs. Bn.) | 94.193 | | 61.591 | -34.61% |
| Market share in total assets (%) | 11.52 | | 12.56 | 1.04 |
| Growth in total assets(%) | 12.27 | | 24.45 | 12.18 |
| Growth in gross income (%) | 7.46 | | 71.20 | 63.74 |
| Net interest margin (%) | 3.51 | | 3.74 | 0.23 |
| Return on Assets (before tax) (%) | 1.74 | | 1.03 | (0.71) |
| Return on average-shareholders' funds (%) | 14.66 | | 12.46 | (2.20) |

## Manufactured capital

| Indicator of value derived | Value derived as at January 01, 2022 | Activities undertaken to create Financial Capital (*) | Value derived as at December 31, 2022 | Growth in value created |
|---|---|---|---|---|
| Branch network (No.) | 287 | • Maintained profitable mix of owned and rented buildings<br>• Delivery channels<br>• Conducted cost-efficient transport arrangements<br>• Improved procurement services | 289 | 2 |
| Number of ATMs and CRMs | 921 | | 934 | 13 |
| Investment in capital expenditure (Rs. Mn.) | 922.623 | | 3,144.592 | 240.83% |
| Investments in IT infrastructure (Rs. Mn.) | 1,202.101 | | 4,658.904 | 287.56% |
| Total operating Income per Branch (Rs. Mn.) | 318.448 | | 459.82 | 44.39% |
| Profit per Branch (Rs. Mn.) | 82.251 | | 79.48 | -3.37% |

## Intellectual capital

| Indicator of value derived | Value derived as at January 01, 2022 | Activities undertaken to create Financial Capital (*) | Value derived as at December 31, 2022 | Growth in value created |
|---|---|---|---|---|
| Brand Equity (Rs. Bn.) | 43.657 | • Invested in centralisation<br>• Improved processes and procedures<br>• Developed new products and services<br>• Expanded network, conducted research and development<br>• Deepened technological expertise<br>• Supported knowledge sharing initiatives | 46.700 | 6.97% |
| Brand Rating | AAA- | | AAA | Strongest Brands in Sri Lanka with "AAA" Rating |
| Top 10 Most Valuable Brands in Sri Lanka | Ranking 4 | | Ranking 3 | Ranking up by 1 from 4th to 3rd place |
| Value of intangible assets (Rs. Bn.) | 1.725 | | 3.563 | 106.57% |
| Compliance and Certifications of ISO 20000/PCI-DSS/ISO 27001 | Complied | | Complied | |
| Employees serving for > 20 years (No.) | 797 | | 854 | 57 |


*(*) Please refer Management Discussion and Analysis for details of the activities undertaken.*

## Human capital

| Indicator of value derived | Value derived as at January 01, 2022 | Activities undertaken to create Financial Capital (*) | Value derived as at December 31, 2022 | Growth in value created |
|---|---|---|---|---|
| Number of employees | 5,072 | • Improved quality of new recruits<br>• Conducted employee surveys<br>• Invested in training & development<br>• Enriched career development<br>• Re-enforced performance management and appraisals | 5,121 | 49 |
| Number of new recruits | 226 | | 369 | 143 |
| Retention ratio (%) | 95.89 | | 94.82 | dropped by -107 bps |
| Return to work from maternity (%) | 100.0 | | 100.0 | Maintained 100% return ratio in both years |
| Profit per employee (Rs. Mn.) | 4.654 | | 4.485 | -3.63% |
| Average service period | 13.16 | | 13.8 | 4.67% |
| Total training hours | 79,928 | | 151,448 | 89.48% |
| Staff welfare cost per employee (Rs. Mn.) | 0.065 | | 0.100 | 53.67% |

## Social and network capital

| Indicator of value derived | Value derived as at January 01, 2022 | Activities undertaken to create Financial Capital (*) | Value derived as at December 31, 2022 | Growth in value created |
|---|---|---|---|---|
| Taxes paid to Government (Rs.Bn.) | 14.470 | • Promoted financial inclusion<br>• Co-created products and services<br>• Collaborated with business partners<br>• Improved capacity of SMEs<br>• Expanded Bank's footprint<br>• Supported the community | 19.043 | 31.60% |
| CSR Trust investment in society (Rs.Mn.) | 751.600 | | 922.162 | 22.69% |
| Number of IT Labs established in rural schools | 253 | | 280 | 27 |
| Number of STEM Classrooms established in schools | 97 | | 140 | 43 |
| Customer Satisfaction – TRI*M Score (Kantar Research) | | | 101 | Surpasses the regional Benchmark |
| Corporate Banking | N/A | | 85 | |
| Retail Banking | N/A | | 92 | |
| SME | N/A | | | |
| Number of MSME participants in financial literacy programmes conducted by the Bank | 11,859 | | 12,699 | 840 |
| Number of members in ComBank BIZ Club | 4,807 | | 5,243 | 436 |

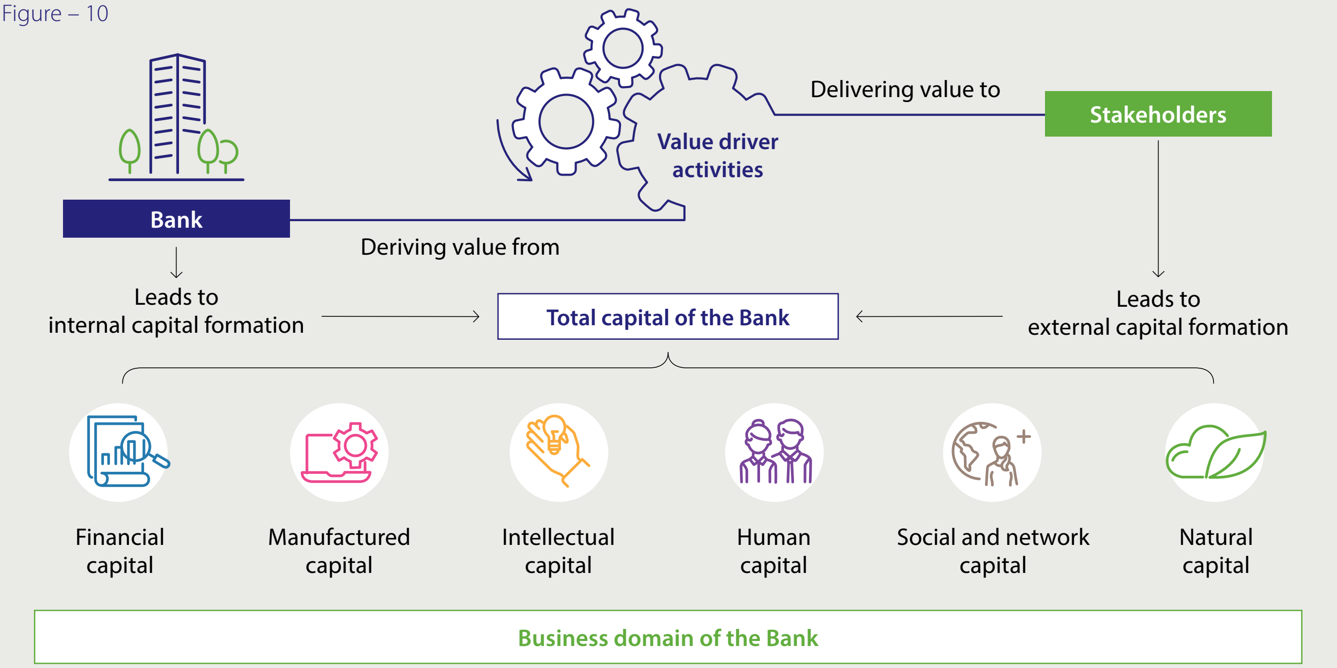
Interconnectivities

## Natural capital

| Indicator of value derived | Value derived as at January 01, 2022 | Activities undertaken to create Financial Capital * | Value derived as at December 31, 2022 | Growth in value created |
|---|---|---|---|---|
| Energy consumption (GJ) | 42,906 | • Screened loans through SEMS<br>• Promoted paper reduction and recycling<br>• Increased usage of renewable energy<br>• Switched to energy-efficient appliances | 38,416 | Saved by 10.46% |
| Solar panel installation locations (No.) | 66 | | 71 | 5 |
| Number of facilities subjected to SEMS screening | 9,938 | | 11,792 | 1,854 |
| No. of accounts linked to internet banking | 862,437 | | 1,098,344 | 27.35% |
| Mobile banking users | 589,826 | | 456,806 | -22.55% |
| Solar power generated as a % of energy consumption | 2.35% | | 4.38% | 2.03% |

# Management Discussion and Analysis

Figure – 10




## Value creation and capital formation

This integrated report shows the value we have created to date for the benefit of our stakeholders. This is reflected in the different types of capital described below and, more importantly, in our continued ability to generate value from these capitals over the short, medium and long term.

The use of a "multi-capital" model to conceptualise an organisation's value creation process is one of Integrated Reporting's fundamental principles. The Bank is better able to capture and disclose a wide range of information about the duality of the value creation process by considering value creation beyond just financial value. These factors are intimately connected since the Bank's capacity to generate wealth for its stakeholders and for itself is intricately intertwined. The greater the value the Bank provides for its stakeholders, the greater the value it can receive from its stakeholders in return. Delivering value basically means creating financial and non-financial value for stakeholders such as investors, customers, employees, business partners, government institutions and regulators, society and the environment, and so on. This will drive the Bank's future earnings and allow it to create value for itself.

Financial capital, Manufactured capital, Intellectual capital, Human capital, Social and relationship capital, and Natural capital are the products of this process. The Bank is driven to sustainably create value into the future by these capitals.

This duality of the process of value creation is depicted in Figure 10 above.

The six capitals in the Statement of Capital Position on pages 56 and 57 provide a snapshot of the value the Bank has been able to create over the past 103 years. The Bank's future expansion and capacity to generate value will be fueled by these robust capitals, which are unmatched among private sector banks.

However, the reader will notice that this Management Discussion and Analysis is structured on the three pillars of the Bank's Sustainability Framework: Sustainable Banking, Responsible Organisation and Community Sustainability (refer Figure 08 page 52 and the four Strategic Imperatives: Prudent Growth, Leading through Innovation, Customer Centricity, and Operational Excellence (refer Figure 11 on pages 60 to 74 for a detailed explanation). The Bank addresses its sustainability pillars and strategic imperatives by executing certain strategic actions (commonly referred to as value driver activities on pages 54 and 55 of the Business Model) to grow its stock of capitals and create value. The growth in capitals that is depicted in the Statement of Capital Position (refer Table 07 on page 56) is the result of these strategic actions as well as the interactions, relationships, and interconnectivities that are created as a result of them. As a result, besides showing how the Bank created value during the year under review, we believe that this structure which reports on the Bank's plans to create value in the short, medium, and long terms, complements the multi-capital model.

# Strategic imperatives

Figure – 11

## Prudent growth

Growing the business astutely with a long-term perspective

### Strategic actions

- **Creating long-term value** by keeping the interests of all stakeholders at heart for sustainable value creation
- **Focusing on pure banking** by remaining true to our original ideals of being a banker first and foremost
- **Managing risks prudently** by strengthening risk governance and management to enhance asset quality and minimise operational losses
- **Remaining well capitalised and liquid** by maintaining sound capital and optimum liquidity in the spirit of their requirements
- **Being well diversified** by minimising concentration into any particular geography, customer, product, sector or currency
- **Making responsible investments** by financing Green projects and employing a Social and Environmental Management System to assess sustainability in all lending activities

## Customer centricity

Providing the experience, simplicity, and convenience that customers value most today

### Strategic actions

- **Growing corporate customer base** by being a trusted partner and providing better business solutions
- **Remaining relevant to mass market customers** by offering a seamlessly integrated omnichannel banking experience
- **Augmenting SME customer value proposition** by providing greater opportunities for growth through networking and education
- **Strengthening ties with micro customers** by driving responsible lending and financial inclusion through closer interaction
- **Enhancing focus on high networth customers** by driving stronger relationships and greater engagement
- **Supporting the community** by investing in innovative solutions for the well-being of both existing and potential customers

| Activities | Stakeholders to whom value was delivered and from whom value was derived | Capitals in which the outcome is reflected |
|---|---|---|
| Activities leading to value creation are detailed under the four strategic imperatives on pages 60 to 74. | Investors<br>Customers<br>Employees<br>Business partners<br>Government institutions and regulators<br>Society and environment | Financial capital<br>Manufactured capital<br>Intellectual capital<br>Human capital<br>Social and network capital<br>Natural capital |

## Leading through innovation

Innovating to enhance the quality of stakeholder interactions and experience

### Strategic actions

- **Fortifying digital leadership** by leveraging platforms and technologies to align with changing customer aspirations
- **Creating complete digital banking platforms** integrated with all system networks and eco-systems to provide a one-stop-shop experience for customers across all segments
- **Increasing the proportion of digital usage** by facilitating and encouraging digital transactions and interactions
- **Segmenting customers through data analytics** to identify and serve unique banking needs and deliver personalised user experiences
- **Redesigning conventional banking processes** as digital processes to create end-to-end digital solutions

## Operational excellence

Enhancing operational efficiencies for better productivity and customer service

### Strategic actions

- **Centralising work processes** to enable branches concentrate more on business development and managing customer relationships
- **Re-engineering business processes** to deploy technological advancements for meeting changing business needs and service standards
- **Optimising resources** by maintaining an optimum mix of CAPEX and OPEX models
- **Investing in employees** to better align them with the changing needs and to improve productivity
- **Safeguarding the environment** by continuously reducing our carbon footprint to contribute to the fight against climate change

# Sustainable banking – Value creation

**Commercial Bank operated with due vigilance in 2022, carefully managing the many risks associated with financial intermediation and maturity transformation. Such a cautious approach was adopted by the Bank to ensure responsible value creation for its diverse stakeholders. The lending portfolio of the Bank which is continuously exposed to risk-elevated environments has readily reformulated the ongoing risk management practices, to minimise risks and to bring enhanced prudence into the Bank's multifaceted approaches to stay relevant and timely. The domino effects of the Easter Sunday carnage of 2019, the COVID-19 pandemic, the continuing war in Ukraine, the disruption of supply chains, the turmoil in the political landscape in Sri Lanka flaring public sentiment, have collectively encumbered the Bank's operational environment in 2022. Still, the above realities require recognition to manage the risk-elevated landscapes with prudent planning, driving reciprocals of mutual growth.**

**In such a risk-elevated environment, the Bank must be a stable and responsible value creator to ensure that the stakeholders are empowered by the Bank's continuance to be the center of their financial ambitions. For the Bank, partnerships come in many forms, including those with investors, customers, employees, Government institutions and regulators, business partners, and society and environment, the key stakeholders of the Bank, forming a collective who are mutually dependent on each other for their enterprise and wellbeing. Delivering responsible financial products is the primary charter of the Bank that continues to leverage strengths while learning from everyday experiences to enhance the financial security of all its stakeholders.**

## 1. Prudent growth →

Prudent growth, in a risk-elevated operating environment both locally and globally, is a careful convergence of leveraging strengths, profiting on selected opportunities, managing risks, and minimising the impacts of threats. In the unprecedented operating context that prevailed during 2022, the biggest challenges for the Bank were maintaining healthy liquidity, capital buffers, and foreign currency reserves. The rating downgrades of Sri Lanka made it challenging for the Bank to operate in international markets to raise the much-needed foreign currency liquidity. Furthermore, containing Non-Performing Credit Facilities (NPCF) whilst generating growth amidst rising inflation and a falling currency and loan book expansion in a milieu of increasing interest rates were key challenges the Bank had to contend with.

As the largest private sector commercial bank in Sri Lanka, that has garnered the trust of over 3.5 million customers, Commercial Bank was cognisant of its fiduciary responsibility of governing the Bank's affairs meticulously and ensuring it is adequately capitalised. Even as Prudent Growth represents value creation for all its stakeholders through the short, medium, and long-term, the Bank continued to focus on agility of operations, innovation, the evolution of the workforce, managing risks, and exemplary governance to drive growth.

A crucial aspect of prudent growth is ensuring the stakeholders are protected from exterior and interior stresses. The below narrative accentuates how the banking ecosystem navigated prudent growth making holistic sustainability the eye of the storm, the calm in the wake of multiple disruptions that saw the Bank to serener times. Prudent growth is not just the big picture, but the forensic detail in which the Bank navigates its operations to instill protection of its key stakeholders. Such meticulous management of operations sets a precedent in how a bank should function to cultivate safety and sustainability as its core strengths in disruption-plagued times.

### Creating long-term value: Striving to enrich

The Bank is positioned to take on the challenges confronting the banking sector and provide stability to the economy. Commercial Bank has built a reputation as a franchise that engages in sustainable value creation for its stakeholders. The Bank has a strong presence locally as well as a footprint regionally, enabling financial leveraging, and influencing a myriad of spheres, each consisting of a gamut of stakeholders.

The Bank's prudent risk appetite has been a yardstick for stability, with a strong stakeholder base that entrusts the Bank with value creation using its array of financial products and services.

Figure – 12: **Our commitment to prudent growth**

- Acceptable levels of capital adequacy
- Optimum levels of liquidity
- Social and Environmental Management System (SEMS)
- Robust Risk Management Framework
- Compliance with laws and regulations, both in letter and in spirit
- Robust Corporate Governance Framework
- Highest market capitalisation in the Banking sector in the Colombo Bourse

- First private sector bank to venture overseas
- First private sector bank to cross Rupees One Trillion in assets, deposits and loans
- Included in the Top 1000 Banks consecutively for twelve years
- Transparency in reporting and disclosures
- Conservative risk profile
- First Carbon Neutral Bank

The Bank's dominant export market share, success in the worker remittances business, healthy CASA ratio, and the strength of its overseas operations, specially in Bangladesh and Maldives has afforded a greater resilience to the Bank. The Bank's reputation within the international sphere is unblemished and outstanding, just as its stellar corporate image within the country, making it easier to get things done internationally. Furthermore, the comprehensive governance and risk management frameworks ensure maximum coverage and readiness for risks and opportunities to convert them into a sustainable financial performance. The loyalty of the customers, who have been with the Bank for generations, has enabled it to be the leader in all key spheres of banking – retail, corporate, and SMEs – allowing the Bank to be more prudent and quality-conscious about its debt portfolio. The dynamic and thoroughly professional team is geared to face any challenge head-on and build lasting relationships with the Bank's customers to offer them feasible solutions.

In 2022, the Bank's deposit base grew by 32.66% to Rs. 1.914 Tn. with a CASA ratio of 38.36% while the gross loans and advances grew by 13.07% to Rs. 1.220 Tn. by the end of the year.

Table – 08: **Growth in deposit base and lending portfolio over the past decade**

| | **2022 Rs. Tn.** | 2012 Rs. Tn. | 10-year CAGR (%) |
|---|---|---|---|
| Deposit base | **1.914** | 0.391 | 17.23 |
| Gross Loans and advances | **1.220** | 0.386 | 12.20 |

### A diversified Bank: A multitude of mixes

Diversification was an actuality in regional geography, customer profile, banking channels, the repertoire of products and services, and the currency mix of the Bank, among other factors. Diversification is a risk management tool to offset acute setbacks, perform better when faced with volatilities, and remain agile amidst changing market conditions. The Bank's diversity is accentuated by the following parameters that are in place.

- Geographically: Sri Lanka, Bangladesh, The Maldives, Myanmar, and a number of Business Promotion Offices (BPOs) across the Middle East and Korea (Refer Graph 45 on page 217)
- Customer Profile (Refer customer segmentation – Table 09 on page 66)
- Multiple Banking Channels (Refer channel mix – Table 10 on page 66)
- Currency-wise Product Mix [Refer Notes 33.1 (b) on page 297 and 45.1 (b) on page 326]
- Products Portfolio [Refer Notes 33.1 (a) on page 297 and 45.1 (a) on page 326]
- A Myriad of Funding channels (Refer Table 10 on page 66 and funding diversification by product on page 62)
- Maturity Profile (Refer Note 60 to the Financial Statements on pages 348 and 349)
- Economic Sectors [Refer Note 33.1 (c) to the Financial Statements on page 298]
- Sources of Revenue (Refer Notes 13.1 and 14.1 to the Financial Statements on pages 272 and 274)

### Staying well capitalised: Steering through a tempest

The Bank's sustainability hinges on a strong base of capital that acts as a cushion or a shock absorber against unexpected losses and as a regulatory restraint on unjustified asset expansion. A crucial aspect of the Bank's success is the loyal shareholder base the Bank can rely on for more capital whenever the need for a capital infusion arises. A bank needs capital to acquire the required fixed assets to establish, perpetuate, and expand business. To ensure that banks are adequately capitalised to meet its obligations to the stakeholders, tightened regulatory requirements and more stringent reporting standards have been imposed all in the interest of various stakeholders, depositors in particular.

In 2022, there were difficulties in securing capital due to the convergency of a multitude of factors. The CBSL implemented several measures to provide banks with more flexibility and opportunities to operate in these challenging conditions and support economic recovery while taking measures to improve their safety and soundness. The measures included, among others, permission for banks to draw down on their Capital Conservation Buffers (CCB) to ensure that banks have an additional layer of usable capital that can be drawn down during times of stress, extending the timeline to restore the CCB requirement within three years based on a Board approved capital augmentation plan, and granting flexibility to stagger the unrealised mark to market loss on Government Securities denominated in LKR.

To assess its capital requirements, the Bank uses the Internal Capital Adequacy Assessment Process (ICAAP), and the annual strategic planning and budgeting exercise. Furthermore, the Bank uses Risk-Adjusted Return on Capital (RAROC), prudent capital allocation, controlled growth in risk-weighted assets, expansion of fee-based services, timely pricing/re-pricing of its assets and liabilities, prudent dividend policy, well-diversified products and services portfolio, Recovery Plan and capital instruments to manage its capital requirements. Through these measures, the Bank has been able to consistently maintain its capital adequacy ratios at the required levels.

### Optimising financial resources: The epicenter

Treasury is a key function that is vital to the financial health and success of the Bank. Whilst helping the Bank to optimise financial resources and manage financial risks effectively, the strategic role of the Treasury in supporting operations has been enhanced to help the Bank to achieve prudent growth.

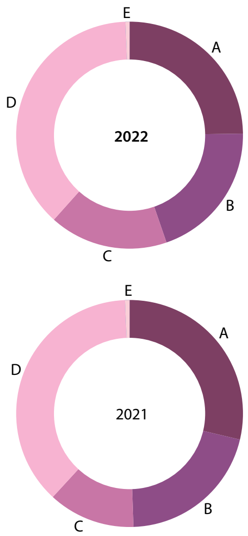
In a climate of limited access to international markets due to the downgrading of the country's credit rating, declining foreign remittances, steep depreciation of the currency, and a 700 bps rise in domestic interest rates, 2Q of 2022 was the most challenging for the Bank's Treasury. Official reserves dropped from USD 7.6 Bn. in 2019 to less than USD 400 Mn. (excluding a currency swap equivalent to USD 1.5 billion with China) in June 2022.

The Bank's Treasury navigated the challenging context by conducting derivative transactions, exploring opportunities for overseas expansions, expanding networking sessions, and launching an online platform for foreign exchange (FOREX) transactions to augment the FOREX position of the Bank. Several client awareness sessions including client meetups were conducted to strengthen client relationships and secure new business opportunities. Furthermore, the client value proposition was enhanced by offering structured packed solutions and designating a Treasury Relationship Manager for each account. The competencies of the Treasury staff were augmented through training and development and recruiting new talent with the required expertise to deliver an exceptional client service. Going forward, the Treasury aims to implement a treasury system, engage in talent development, expand the derivatives portfolio, restructure the Fixed Income Securities (FIS) Portfolio, approach specific export segments with added incentives to increase volumes, and automate the FX portal.

# Diversification

## OPERATING SEGMENTS

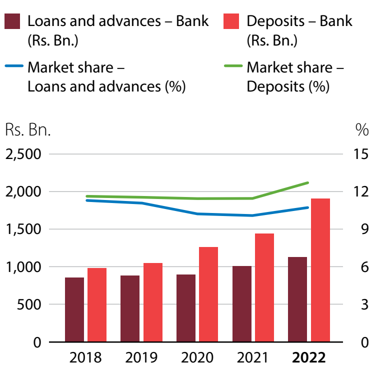
### Graph – 01: Contribution to Group's total assets as at December 31




| | | | 2022 % | 2021 % |
|---|---|---|---|---|
| | A | Personal Banking | **24.79** | 28.69 |
| | B | Corporate Banking | **19.93** | 20.77 |
| | C | International Operations | **16.91** | 12.38 |
| | D | Dealing/Treasury | **37.79** | 37.51 |
| | E | NBFI, Real Estate and Services | **0.58** | 0.65 |

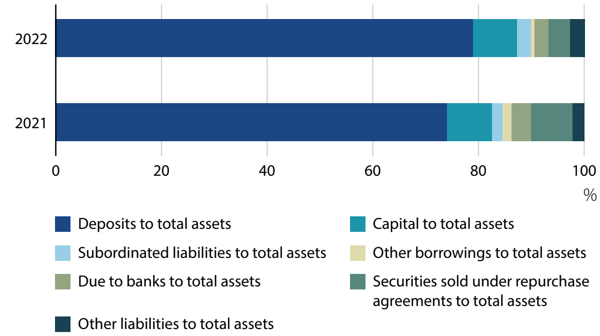
Excluding unallocated/eliminated adjustments

### Graph – 02: Deposits and advances

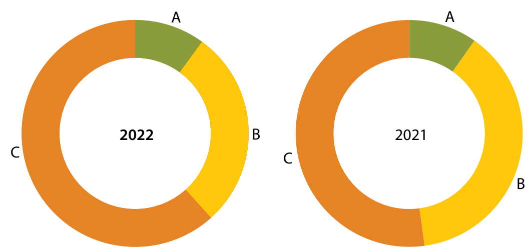



## SOURCES OF FUNDS

### Graph – 03: Funding structure

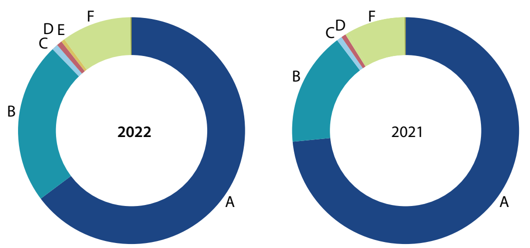



### Graph – 04: Deposits mix




| | | | 2022 % | 2021 % |
|---|---|---|---|---|
| | A | Current account balances | **10.03** | 9.76 |
| | B | Savings deposits | **28.33** | 38.08 |
| | C | Time deposits | **61.64** | 52.16 |
| | D | Other deposits | **0** | 0 |

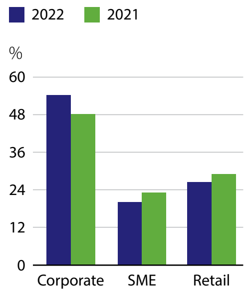
### Graph – 05: Deposits by type of currency




| | | | 2022 % | 2021 % |
|---|---|---|---|---|
| | A | Sri Lanka Rupee | **64.76** | 73.44 |
| | B | United States Dollar | **22.99** | 16.25 |
| | C | Great Britain Pound | **0.87** | 0.76 |
| | D | Euro | **0.77** | 0.66 |
| | E | Australian Dollar | **0.51** | 0.45 |
| | F | Bangladesh Taka | **9.94** | 8.30 |
| | G | Maldivian Rufiyaa | **0.00** | 0.00 |
| | H | Other currencies | **0.16** | 0.14 |

## LOANS AND ADVANCES

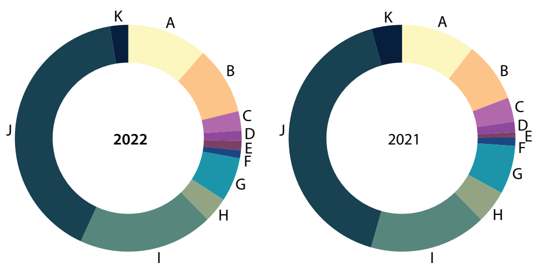
### Graph – 06: **Loans and advances by Customer type (Sri Lankan Operations)**




### Graph – 07: **Loans and advances by industry – 2022**

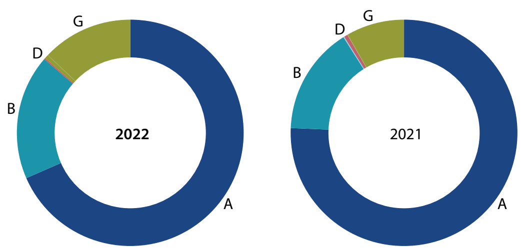
| | % |
|---|---|
| Wholesale and retail trade | **21.16** |
| Lending to overseas entities | **15.48** |
| Manufacturing | **12.49** |
| Consumption and other | **10.59** |
| Agriculture and fishing | **10.35** |
| Financial services | **7.98** |
| Tourism | **7.04** |
| Construction | **4.37** |
| Other | **10.54** |

### Graph – 08: **Loans and advances mix**




| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Overdrafts | **11.45** | 10.60 |
| B | Trade finance | **9.71** | 8.61 |
| C | Lease/hire purchase receivable | **2.76** | 3.44 |
| D | Credit cards | **1.46** | 1.52 |
| E | Pawning | **1.34** | 0.71 |
| F | Staff loans | **1.13** | 1.21 |
| G | Housing loans | **6.29** | 6.92 |
| H | Personal loans | **3.56** | 4.72 |
| I | Short term Loans | **19.20** | 16.68 |
| J | Long term Loans | **40.50** | 41.24 |
| K | Bills of exchange | **2.60** | 4.35 |

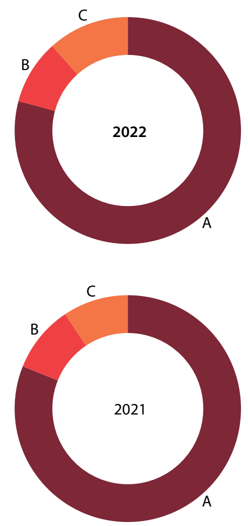
### Graph – 09: **Loans and advances by type of currency**




| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Sri Lankan Rupee | **68.45** | 75.68 |
| B | United States Dollar | **17.85** | 15.34 |
| C | Great Britain Pound | **0.18** | 0.13 |
| D | Euro | **0.51** | 0.50 |
| E | Australian Dollar | **0.06** | 0.05 |
| F | Japanese Yen | **0.02** | 0.02 |
| G | Bangladesh Taka | **12.93** | 8.28 |
| H | Maldivian Rufiyaa | **0.00** | 0.00 |
| I | Others | **0.00** | 0.00 |

## GROSS INCOME

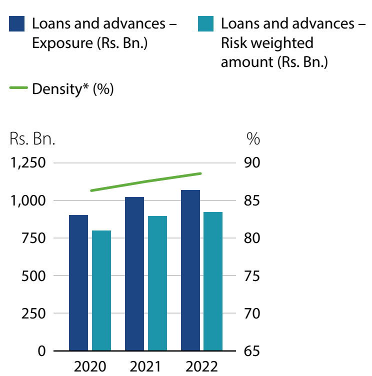
### Graph – 10: **Composition of gross income**




| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Interest income | **79.26** | 81.08 |
| B | Fee and commission income | **9.25** | 9.58 |
| C | Other operating income | **11.49** | 9.34 |

## RISK PROFILE OF THE LOAN BOOK

### Graph – 11: **Loans and advances – Density ratio**




*Density – Risk weighted assets expressed as a % of total exposure

### Capital management objectives: Rules and local practices

The Bank accords highest importance to capital management whereby measures are taken to ensure availability of sufficient capital at all times through its ICAAP, with the following objectives:

- Adhering to industry standards and an even more stringent internal capital adequacy requirement, the Bank remains well capitalised, above the minimum regulatory requirements
- Ensuring maximum profitability through optimum capital usage
- Being supportive of wealth creation and business expansion
- Supporting a credit rating that is well above industry peers

For more information on Bank's Capital Management, please refer page 203 on Risk Governance and Management section, Note 66.5 on pages 385 and 386 and page 416 for Annex 2, Disclosure 7 on Summary discussion on adequacy/meeting current and future capital requirements.

### Managing funding and liquidity: Honouring commitments

A liquidity foundation that can sustain the Bank in relation to ad hoc, acute, and unforeseen shocks, is now part of the banking resources, abiding by Basel III regulations, that introduced Liquidity Coverage Ratio (LCR, 2015) and Net Stable Funding Ratio (NSFR, 2019) as prescriptive thresholds. The Bank's reputation as an outfit that does not compromise its liquidity status has ensured that the stakeholders have confidence in the banking stalwart. The Bank's ALCO meets at least on a fortnightly basis to ensure that funding and liquidity are consistent with the Bank's overarching assurances to its stakeholders. ALCO actively deliberates on market liquidity, foreign currency funding position, current and perceived interest rates, changes in policy rates, credit growth and alternative investment options for its excess funds given the low growth in loans and advances.

The Bank has faced challenges in its funding and liquidity management. The acute decline in foreign currency reserves and the relegation of the sovereign status, which together played a role in presenting a challenging environment to secure foreign exchange was a key challenge. In such a climate, the Bank proactively responded by adopting new funding strategies while also reaching out to new funding partners.

The Bank's funding sources for onward lending, in order of their assessed stability include:

- Retail deposits mobilised through the branch network
- Low-cost foreign currency borrowing (provided the interest and swap cost attached to such borrowing is cheaper as compared to the cost of wholesale deposits)
- Selected long-term wholesale deposits
- Re-purchase agreements
- Subordinated debentures

The Bank's investment banking arm continued to embrace sustainability by balancing traditional investing with ESG insights to improve long-term outcomes. The year 2022 was a relatively inactive period for the investment banking arm of the Bank. The Rs. 10 Bn. debenture issue managed by the Investment Banking Unit further strengthened the Tier II capital base of the Bank, bridged maturity mismatches in the assets and liabilities portfolio of the Bank, and raised funds for the expansion of the Bank's lending portfolio, especially in the SME segment and export-oriented industries in the interest of supporting the national economy. The debenture which closed within hours of opening after it was oversubscribed on the opening day reflects the investor confidence in the Bank, amid the challenging operating environment.

### Funding and liquidity management objectives: Managing worth

The overall objectives of the Bank's funding and liquidity profile encompass the following efforts on the part of the Bank:

- Honouring the stakeholders' varied transactions with the Bank, inclusive of deposit maturity withdrawals and a multitude of cash commitments in the normal environment as well as in times of financial constraints and economic hardships.
- Remaining compliant with all regulatory and reporting standards, building the internal funding and liquidity targets to reach beyond the benchmarked thresholds, thereby having internal standards in place that are more stringent than broader prescriptive measures.
- Maximising profitability through the optimal deployment of liquid assets, both as short-term measures as well as leveraging intelligent and judicious planning for the longer term.
- Funding future business expansion at optimum cost.
- Supporting the desired credit rating.
- Complying with Basel III regulatory measures in funding and liquidity requirements (Refer Annex 2, Basel III – Disclosures under Pillar III on pages 411 to 423).

### Anti-Money Laundering (AML): Brilliant and white

The Bank performs Money Laundering and Terrorist Financing risk assessments to ensure that its reputation is not tarnished by such illegal activities. Guided by the relevant regulatory directions and internal policies, such risk assessments are conducted by the Bank at the time of onboarding customers as well as at set periodic intervals based on their perceived risk levels thereafter with the help of the algorithms built into the computer systems. The AML/Compliance Department periodically reports its findings and observations to the Board through the BIRMC in addition to the monthly statutory reporting to the Financial Intelligence Unit of the CBSL.

### Anti-bribery and anti-corruption: Perfect altitudes

The Anti-Bribery and Anti-Corruption Policy of the Bank leverages to uproot all sorts of misdeeds that are criminal in activity. In affirming its commitment to the 10 principles of UNGC, while ensuring that the merits of the Code of Ethics are vigilant and practiced, the Bank expects all its employees to abide by the highest standard of ethical conduct, with a zero-tolerance policy for any abuse of power, solicitation, or acceptance of bribes, even trickles of corruption, as well other contentious and unlawful behaviours that taint the banking culture. The Bank also ensures that all subcontractors, vendors, suppliers, service providers, consultants and representatives, and others who are providing a service to the Bank, abide by the highest level of ethical conduct that is part and parcel of the banking outfit. Furthermore, the Bank is guided by the Whistleblowers Charter and guidelines that covers aspects such as accepting and offering gifts or other illegal gratification, collection and borrowing of funds, obtaining undue favours from customers and suppliers, and holding a Directorship, being a Partner or Shareholder in private companies enumerated in the Code of Ethics and Administrative Circulars. The Board approved Anti-Bribery and Anti-Corruption Policy is available on the Bank's website at *https://www.combank.lk/info/file/91/anti-bribery-and-anti-corruption-policy*.

## Ethics and conduct: Uncompromised virtue

The Bank conducts itself with a maximum commitment towards ethics and conduct standards that are both written into prescriptive compliance standards and the *de facto* measures that are goodwill-based and ethically proactive, to stay true to being a virtuous agent of the highest ethical standards. Taking a zero-tolerance attitude towards bribery, corruption, fraud, money laundering, and other corporate vices, which is a benchmark of the Bank's line of conduct that is periodically audited (the scope and frequency of audits are put in place by the Inspection Department) to safeguard best practices that are intolerant of any presence of misdeeds. The code of ethics that the Bank abides by is reinforced by an active whistleblower policy that promotes a culture of reporting any unethical practices such as corruption, fraud, and misappropriations to the Compliance Officer in order, to ensure that the Bank's integrity is untainted of such misdoings.

## Conduct Risk Management Policy Framework: Staying one step ahead

During the year, the Bank adopted a Group Conduct Risk Management Policy Framework with a view to further strengthen risk management and corporate governance by ensuring that the Bank does not engage in any action that harms customers, negatively impact market stability and prevent effective competition. It is expected to establish a risk culture that not only addresses the risk of misconduct but also highlights clear accountability of actions through a preventive approach, by ensuring proper customer onboarding practices and transparency in fees and charges while avoiding fraudulent activities, insider trading, improper financial advice to customers, mis-selling of financial products, tax avoidance, collusion with financial markets and inaccurate financial and regulatory disclosures.

## Socially and environmentally sustainable lending and practices: A green ethos

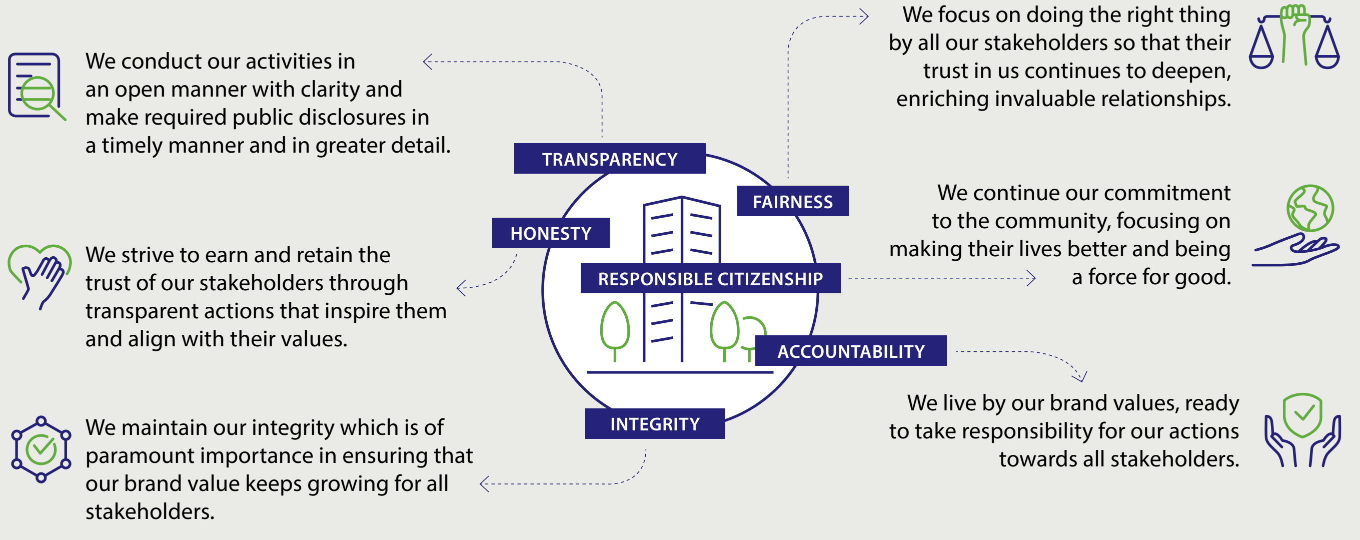
More detailed coverage of green finance measures implemented by the Bank in the year 2022, inclusive of the internal taxonomy as well as the regulatory-compliant prescriptive reporting standards (external taxonomy) that were put in place by the CBSL, are described under Green and Safe Workplace under "Responsible Organisation" on pages 15 and 16.

The Green Finance vision of the Bank is to support green initiatives and the green portfolio to a significant part of the Bank's lending portfolio. The Bank has been the recipient of two awards for its performance in climate financing and environmental consciousness for the year 2021 from IFC. IFC has reaffirmed Commercial Bank of Ceylon's status as the South Asian financial institution to record the highest number of climate finance transactions in fiscal year 2022, awarding Sri Lanka's benchmark private sector bank the prestigious Climate Assessment for Financial Institutions (CAFI) award in respect of the year. The CAFI Award for climate reporting was conferred on Commercial Bank for successfully completing 314 climate finance transactions that met IFC's climate eligibility criteria. The CAFI tool was used to assess climate eligibility and measure the climate impact of investments.

The Bank uses its SEMS to keep a foothold on the social and environmental risks that could be set in motion by the funding activities while helping the borrowers to upkeep and maintain the obligatory requirements in green financing.

The Bank's green financing portfolio has made strong inroads in ensuring that its carbon footprint is reduced by 229,752.47 $tCO_2e$ upto December 31, 2022.

Figure – 13: **Values that support the Bank's brand**



## 2. Customer centricity →

Based on a deep understanding of its customers in terms of their expectations, needs, preferences as well as concerns and responding with products and services that are required through their journey, the Bank makes every attempt to offer an unparalleled banking experience, making every interaction with the Bank a pleasant experience. In the rapidly changing operating context, it requires transforming internal mindsets and processes to remain agile and relevant. The Bank has carefully segmented its diverse customer base and tailored its services to cater to each segment, enabling the Bank to deliver a differentiated value proposition that enhances its brand and elevates customer loyalty. Meeting the needs of customers, and providing such personalised support was vital in a year of unprecedented economic downturn.

### Customer segmentation: Tailor-made solutions

The Bank continued to deliver an unparalleled banking experience to its customers and responding with products and services that meet and even exceed their expectations. This involved transforming internal mindsets and processes to remain agile and relevant.

To cater to its diverse customer base with tailor made solutions and offer a differentiated value proposition, the Bank segments each of its customer base. This helps to elevate the Commercial Bank brand and strengthen customer loyalty and engagement as depicted on tables 09 and 10 below.

In order to measure satisfaction among customers, the Bank engaged the services of Kantar Research. The Bank achieved a total TRI*M score of 101 for Corporate Banking which is well above the average to the regional benchmark of 85. Values between 100 – 150 is the highest tier denoting excellence. The TRI*M score for Retail Banking was 85, the highest among the competitors who on average scored 74. The Bank secured the second highest TRI*M score of 92 for SME Banking.

Table – 09: **Customer segmentation**

| Criteria | High net-worth | Corporate | SME (Small and Medium Enterprises) | Micro customers | Mass market |
|---|---|---|---|---|---|
| Income/Size of relationship/ Business turnover/Exposure | Individuals with banking relationships above set thresholds | Annual business turnover> Rs. 1.0 Bn. or Exposure> Rs. 250 Mn. | Annual business turnover< Rs.1.0 Bn. or Exposure< Rs. 250 Mn. | Exposure< Rs. 500,000 | Individuals not falling into other categories |
| Price sensitivity | High | High | Moderate | Low | Low |
| Products of interest | Investment | Transactional, trade finance, and project loans | Factoring, leasing and project financing | Transactional | Transactional |
| Number of transactions | Low | High | High/Moderate | Low | Low |
| Level of engagement | High | High | High | Low | Low |
| Objective | Wealth maximisation | Funding and growth | Funding, growth and advice | Funding and advice | Personal financial needs |
| Background | Elite business community/ professionals | Rated, large to medium corporates/ MNCs | Medium business | Self-employed | Salaried employees |
| Number of banking relationships | Many | Many | A few | A few | A few |
| Level of competition from banks | High | High | Moderate | Low | Moderate |

Table – 10: **Channel mix and target market on perceived customer preference**

| Customer segment | Branches | Internet & Mobile Banking | ATMs/CDMs CRMs | Call centre | Relationship managers | Business promotion officers | Premier banking units |
|---|---|---|---|---|---|---|---|
| High net-worth | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Corporates | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ |
| SMEs | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ |
| Micro | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ |
| Millennials | ✗ | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ |
| Mass market | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ |

## Uplifting the Small and Medium Enterprises (SMEs): Lending matters

Commercial Bank was declared the largest SME lender for 2020 and 2021, by the Ministry of Finance, Sri Lanka, which speaks amply of the Bank's focus and commitment to the SME Sector.

Capacity building of SMEs that form the backbone of the Sri Lankan economy is an ongoing and overarching demand for the Bank that has a resolute pipeline of financial products and services. In such a climate, developing the financial literacy and capacity building of the SMEs takes precedence. The Bank conducted webinars on how to penetrate diverse markets, leverage non-financial services, and connected SMEs with both supply chains and exporters. The Bank also enhanced the literacy of SMEs in areas such as entering the export market, marketing a product, and utilising the toolboxes of international methodology to enter untapped or under-tapped markets. During the year under review, the Bank conducted awareness programs on diverse subjects for over 800 micro-SMEs (MSMEs), Women SMEs (WSMEs), and future SMEs. Details of the SME training programmes conducted are given on page 68 of this Report.

Furthermore, the Bank conducted SME fairs and SME clinics, the former to introduce a centralised event to develop networks, and the latter on how best to resolve the impending problems and to transpose the SME business to a whole new echelon. In particular, the Bank concluded its first of a kind, two-day "SME Trade Fair" at *Diyatha Uyana,* Battaramulla with the participation of over 110 SMEs. A one-stop information center with the participation of various Government and other stakeholder institutions was set up at the event to provide services to the SME sector. The Bank continued to promote digital banking products among SMEs that participated at the Trade Fair to minimise operational costs and improve efficiency.

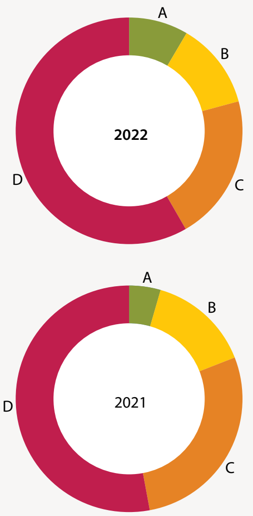
The ComBank BIZ Club launched in 2017 continued to provide SMEs with extensive networking opportunities and other benefits beyond lending. The number of members has grown to over 5,000, comprising 50% of the Bank's SME portfolio as of December 31, 2022. The Bank continued to offer several benefits to the members of the Club including free financial advisory services and invitations to exclusive business seminars, which are beneficial to the development of their businesses. To date, the Bank has assisted over 12,000 MSME customers through 1,215 financial literacy programmes.

The Bank took an initiative to broad base microcredit facilities to better sustain the MSMEs in an impending crisis. The small business custodians were armed with microfinancing to help MSMEs to face the incumbent situation, to tap into the value creation processes of the Bank, in order to better navigate the testing times. A Business Rehabilitation & Revival Unit was set up to assist SMEs to revive and recover from the dragged-out financial crisis, and to help them come out of their stagnancy. The Bank also took initiatives in NPCF management, redeployment of staff, implementation of regional rehabilitation centers, and loan delinquency management, to help SMEs.

In the backdrop of the tough economic conditions, the Bank closely collaborated with the SMEs to offer concessions by restructuring and rescheduling loan facilities. The SME officers were trained to better understand the SMEs and to instil in them adaptable practices to facilitate the recovery of the SMEs of concern. The moratoriums offered to SMEs are maturing in January 2023 and in such a landscape, the required repayment schemes, and the restructured loans with concessions were put in place to ensure a lifeline for the hardest-hit SMEs in 2023 and beyond. As per the CBSL instructions, the Bank considered special moratoriums for loans for the value of Rs. 174.921 Bn. of which Rs. 41.429 Bn. represented SMEs.

For proactively identifying the timely needs of SMEs and micro enterprises and providing tailor-made products and services to assist this segment that has in the past two years been affected first by the pandemic and subsequently by economic shocks and funding issues, the Bank was recognised as the "Best Bank for SME Banking" in 2022 by the respected Asiamoney Magazine.

Graph – 12: **Composition of loans granted by Commercial Bank to the SME sector**




| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Agriculture | **8.46** | 4.48 |
| B | Services | **12.35** | 14.59 |
| C | Industries | **20.87** | 28.01 |
| D | Others | **58.32** | 52.92 |

*Source: Annual Report 2021 Ministry of Finance Sri Lanka*

## Financial altruism: The gift of giving

The Bank continued to be a driving force in partnering and cooperating with national economic development efforts, playing a significant role in the post-pandemic recovery process. Stretching beyond the mandated debt moratorium measures, the Bank granted working capital loans and concessions to affected sectors, whilst building on its post-COVID momentum in rolling out relief programmes, having emerged as the leading lender and provider of relief amongst private sector banks during COVID-19.

### Segment analysis of customers who availed concessions/moratoriums under the CBSL Directions

| Segment | As at December 31, 2022 No. of loans | Balance outstanding (Rs. Bn.) |
|---|---|---|
| Corporate | 767 | 89.549 |
| Retail | 26,850 | 43.105 |
| Agriculture | 263 | 0.783 |
| Micro | 796 | 0.056 |
| SME | 6,238 | 41.429 |
| | 34,914 | 174.921 |

*Note : The figures include both the active and expired moratoriums.*

**Supporting exporters:**
**The quintessential exports Bank**

Commercial Bank which channels 18% of Sri Lanka's export volumes, entered into a strategic partnership with the National Chamber of Exporters of Sri Lanka (NCE) to create another platform to extend financial solutions to Sri Lanka's exporters, with due emphasis on SMEs. This is an extension of the Bank's commitment to encourage and strengthen SMEs engaged in the export market, and the delivery of a full range of international banking capabilities and expertise to facilitate the growth of business for exporters. Exporters had also the opportunity to take part in a Trade Fair, Seminars and Webinars organised by the Bank in collaboration with industry experts such as the EDB and the Ministry of Commerce during 2022.

**Female participation: A kaleidoscope**

A series of women-centered programmes and events took place at several branches of the Bank in March 2022 to commemorate International Women's Day, while dedicating the first quarter of 2022 to its flagship *Anagi* Women's Banking portfolio.

On top of the "*Anagi* Women's Savings Account" a new loan scheme that allocates an expanded portfolio of initiatives designed exclusively to support the aspirations of women was launched during the quarter. The new loan product portfolio – "*Anagi* Business Loan for Women Small and Medium Entrepreneurs (WSME)" was designed in collaboration with the IFC – under the IFC – DFAT Women in Work programme agenda, a Gender Advisory Project – using its expertise in increasing access to finance for women, an important but under-served segment.

Women from many professions and careers were felicitated in 2022, including female doctors, assistant government agents, accountants, nurses, principals, senior teachers, media personalities, lawyers, women's society leaders, beauticians, police officers, artists, micro, small and medium entrepreneurs, and women in the agriculture, health and garments sectors.

The Bank also deployed its Bank on Wheels service to many areas of the country, especially garment factories, to facilitate the opening of *Anagi* Savings Accounts that are designed to support the dreams and aspirations of women. The *Anagi* Instant Personal Loans were launched to empower employed women receiving their salary via PayMaster.

During the year 2022, the Bank also conducted capacity-building programmes for 425 women entrepreneurs.

The Bank partnered with the PIM to sponsor certificate courses for 50 female entrepreneurs on Women Entrepreneurship Skill Development in Colombo covering two Colombo regions, and successfully conducted the 2nd session in Kandy covering Central, North Central and Wayamba regions. Additionally, the Bank conducted a Career Guidance program for 75 female students at the University of Colombo. Through all non-financial programs, the Bank was able to support more than 1,000 students, WSME customers, and non-customers in 2022.

Considering the entire SME loan portfolio of the Bank as of end of 2022, women-connected SMEs stand at 50% (48% in 2021). The Bank has over 14,000 women connected SME facilities and over 5,600 SME women connected customers. Furthermore, from the entire retail loan portfolio of the Bank, women-connected retail loans at the end of years 2021 and 2022 stood at 30.65% and 32.02% respectively. Compared to 2021, in the year 2022, the women-connected retail loan portfolio growth is 1.37% equalling to Rs. 2.5 Bn.

With the relaunch of the *Anagi* brand in the year 2022, the Bank was able to open over 92,000 new *Anagi* Women's Savings accounts with a growth of 39.4% compared to the previous year. Further, the total deposits held by female customers increased from Rs. 545 Bn. to Rs. 697.5 Bn. in 2022 compared to 2021. New female customer base growth recorded a 16.5% increase in 2022 compared to 2021.

**Empowering futures:**
**A cosmopolitan tomorrow**

The Bank embarked on a new chapter in consolidating the futures of children in an ever-expanding global village by launching the *Arunalu* Foreign Currency Minor's Savings Account. The savings account can be opened in four designated currency denominations for children who are Sri Lankan citizens residing in Sri Lanka or for children of Sri Lankan emigrants whose birth is registered in Sri Lanka. Through this account, the Bank provides the opportunity to parents to start saving early against the future expenses of their children, especially for higher education in a foreign country, without the risk of being affected by the impacts of the depreciation of the Rupee. The account can be opened with a minimum initial deposit of USD 50 or the equivalent in other designated currencies. The total savings of an account can be cashed on the 18th birthday or later by the account holder.

**Senior citizens' accounts:**
**Troves not just of wisdom**

The Bank widened its senior citizen account holder base by relaunching its "*Udara*" Senior Citizens Account with new features and special interest rates and offering more rewards. The minimum initial deposit was reduced from Rs. 5,000 to Rs. 1,000 and *Udara* Fixed Deposits were offered from Rs. 10,000 upwards. Among the new features are the introduction of a Statement Savings Account in addition to the existing Passbook Savings Account, and offering ePassbook and eStatement facilities free of charge. Furthermore, *Udara* customers are accorded priority service at any Commercial Bank branch upon submission of their passbook, debit card, or special identity card.

### Agriculture: Sustainable finance that feeds

The Bank launched the *Dirishakthi* Value Chain Development Programme to support microentrepreneurs with a holistic intervention. This encompasses financing and empowerment activities that benefit the borrowers and all participants in their value chains to drive success and growth from the grassroots level. Its In-kind Grants initiative was introduced to support the identified value chains to improve their efficiency and sustainability. All participants in a value chain were identified with the assistance of existing customers or Community-Based Organisations (CBOs). During the year under review, the Bank organised a financial literacy programme in Hettipola for members of the *Sithamu* Women's Agriculture Association engaged in cultivation and livestock farming. Financial and technical support was extended to 532 tea growers attached to four tea societies in Bandarawela, Deniyaya and Gampola whilst four earth drilling machines and two tea harvester machines were donated to selected tea grower societies in the above region through In-kind Grant Initiative. This programme has previously benefitted traditional rice producers and farmers in Kokkadichcholai and Batticaloa, the dairy value chain of the Mullaitivu Livestock Breeders Cooperative Society, and a group of dairy farmers in Mulliyawalai.

### Advancing card and cashless initiatives: À la card channels

Pushing the boundaries of customer service and experience through innovative products and services, the Bank enabled "Visa Direct" and "MasterCard Send" card-based fund transfer facilities for the first time in Sri Lanka. Debit and prepaid cardholders are enabled to transfer funds to any locally-issued Visa and MasterCard Debit, Credit, or Prepaid card through the Bank's ATMs, CRMs, and Q+ Payment App, delivering enhancement of functionality and convenience. This fund transfer platform can be upgraded to facilitate businesses, government institutes, corporates, and merchants to do fund disbursements for various purposes.

Furthermore, the Bank became the first Sri Lankan Bank to introduce card acceptance through Android smartphones, allowing its merchants to conveniently and cost-effectively accept card payment transactions. The enabling of "Smart Phones" to accept Card payments interacting as a POS device branded as "Tap to Phone" allows merchants to conveniently and cost-effectively accept Card payment transactions using their mobile devices. This innovation has changed the landscape of the digital payment industry in Sri Lanka with the state-of-the-art low-cost technology, by converting any NFC-enabled Android smartphone into a payment acceptance terminal with utmost security.

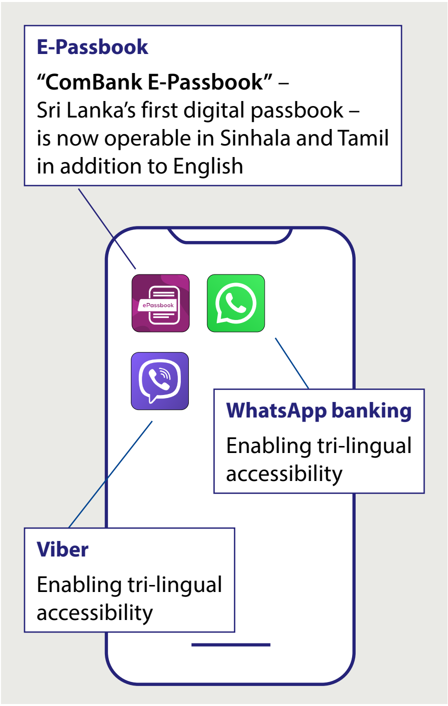
In order to support the sustainability practices while safeguarding the environment, a novel feature was introduced replacing paper receipts with Digital receipts covering the ATM and CRM withdrawals. This feature is available to ComBank Cardholders when making a withdrawal from ComBank ATM/CRM, through transaction SMS with a link for a printable PDF digital receipt to their registered mobile number instead of disbursing paper receipts from ATM/CRM.

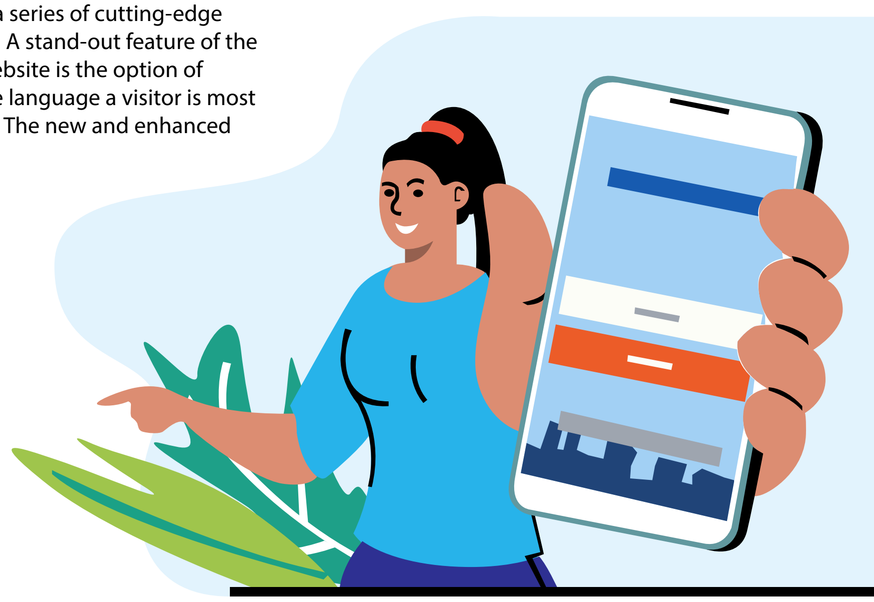
### Trilingual presence: Tripartite inclusivity

The Bank in its service and product portfolios saw to the implementation of trilinguality to connect with customers from different cultural, religious, and ethnic backgrounds. An example of trilingual services deployment was seen with the launching of the Integrated Contact Centre in 2020 to serve its customers and stakeholders 24/7 and enabling customers to reach the Bank via multiple channels and languages for inquiries and assistance. Also, the Bank's on-site customer service teams are equipped with trilingual proficiency to better serve the customer base.

The Bank's website, now an indispensable tool for millions of customers and information seekers, has been re-launched as a trilingual resource, with a series of cutting-edge enhancements. A stand-out feature of the re-launched website is the option of browsing in the language a visitor is most comfortable in. The new and enhanced Commercial Bank corporate website has been launched with access to content in English, Sinhala and Tamil, an ultra-smooth interface with interactive multimedia material, enhanced navigation, experience-customisation, smarter search options and tools, and resources that make it extra user-friendly and informative.

Some of the banking products with a trilingual presence launched in 2022 are given below.



## 3. Leading through innovation →

### Digital strategy: A vista for convenience

The Bank remains committed to creating a digital culture, identifying digital initiatives, using integrated technologies, balancing brick and mortar vs digital channels, integrating legacy systems, conducting smart experiments, offering smart interactions, opening databases through APIs, upgrading business models, unlocking new revenue sources, and augmenting the digital experience of stakeholders. The Bank's digital initiatives have continued to garner recognition through awards and accolades. The Bank was the largest facilitator of CEFT transactions in Sri Lanka with over 27 million transactions for the 12 months ended December 31, 2022. The Bank's stakeholders have become more comfortable with the digital frontier, increasingly mastering the digital learning curve with a wide acceptance of digitalisation. Accordingly, the Bank's digital banking retail customer base grew by 49% YoY, and its digital banking business customer base grew to over 43,000 users.

### Digital roadmap 2022-2024: At the heart of the journey

Aligned with the Bank's digital vision of building a digital economy where each customer is engaged at their level of techno literacy, the Bank's digital roadmap is focused on retail customers encompassing products, services, processes, and touchpoints. The digital transformation for the next three years is driven by the following goals:

- Service transformation to achieve service excellence.
- Operational transformation to be more efficient and effective.
- Digital transformation to reaffirm digital leadership.
- Talent transformation to enhance performance.

Accordingly, the Bank continued to invest in redesigning its conventional banking processes as digital processes, integrating with other ecosystems, and upgrading internal systems to adapt to anticipated changes in the regulatory environment and risk management. Reskilling staff and attracting specialised talent, building partnerships, and developing its data capabilities continue to be focal areas as well.

### Digital shelves 2022: Choices at your fingertips

The Bank identified opportunities to introduce new retail banking solutions to fill market gaps and implement proactive and remedial product changes to counter threats, competitor pressures, and other challenges. The retail arm of the Bank also supported the branch network by establishing partnerships for product value additions, sales drives, and cooperative campaigns, and by conducting marketing activities such as spot promotions and database marketing.

The series of digital products that were launched in 2022 include the *Arunalu* children's savings account in foreign currency, 100, 200, 300, 400 days fixed deposit schemes, Forex Plus (FCY fixed deposit) scheme, and the Millionaire Investment Plan in foreign currency.

Table – 11: **Investments in IT infrastructure**

| Indicator/Year Rs. Mn. | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Investments in Hardware (Computer Equipment) | 2,440.880 | 434.054 | 505.742 | 567.689 | 1,034.115 |
| Investments in Software (Licenses etc.) | 2,218.024 | 768.047 | 409.322 | 387.432 | 333.181 |
| **Total** | 4,658.904 | 1,202.101 | 915.064 | 955.121 | 1,367.296 |

Table – 12: **Migration to digital channels**

| Indicator/Year | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Number of existing customers migrated to online banking | 265,183 | 212,806 | 157,599 | 109,873 |
| New customer acquisition through digital channels | 9,539 | 12,491 | 16,327 | 14,957 |

Table – 13: **Total financial transactions initiated through digital channels**

| Indicator/Year | 2022 | 2021 | 2020 |
|---|---|---|---|
| Number of transactions (Total transactions without SLIPS/CEFTS) | 49,086,590 | 37,841,881 | 23,724,058 |
| Value of transactions (Rs. Bn.) (Total transactions without SLIPS/CEFTS) | 3,586.280 | 2,356.170 | 1,386.250 |
| % of customer transactions below Rs. 200,000 | 94 | 92 | 97 |
| Growth in number of transactions (YoY) (Total transactions without SLIPS/CEFTS) (%) | 30 | 60 | 10 |
| Growth in value of transactions (YoY) (Total transactions without SLIPS/CEFTS) (%) | 52 | 70 | 22 |

Product enhancements and changes were an integral aspect of the Bank in 2022. Product revamps in the Achiever Salary Savings Account and *Udara* Senior Citizen's Account, a revised *Isuru* Minors' Savings Plan and Millionaire Investment Plan, and the introduction of preferential interest benefits for Vibe Youth Savings Account holders when obtaining education Loans, were some of the key retail product changes during the year. The Bank entered into partnerships to offer value additions to its customers throughout the year. A special loan scheme was launched targeting "First Time Home Buyers & Builders". Furthermore, in relation to leasing, the Bank launched a Discount Voucher Scheme partnering with leading automotive service providers, and dealers in the supply of spare parts and accessories. In addition, a feature called Loan Leads through WhatsApp banking provides customers the ability to apply for a Personal Loan, Home Loan, or a Leasing Facility through the ComBank WhatsApp Banking service.

### Flash toolkit: A future-friendly panacea

The winner of the award for the "Digital Banking Initiative of the Year" in Sri Lanka at the 2021 Asian Banking and Finance (ABF) awards, Flash is an all-in-one digital banking solution/toolkit that helps the customer manage lifestyle aspects by provisioning a payment portal for daily living and utilities, all under a unitary platform.

The Bank introduced two innovations to the Flash toolkit in 2022 fueled by the latest technology i.e., the introduction of wearable banking for the first time in Sri Lanka through Flash and the introduction of Digital KYC (Know Your Customer) for Flash new customer onboarding process.

This innovative wearable banking solution allows users to view their account balances and accept fund transfer requests directly from their Apple watches. In the future, the Bank plans to expand the functionality of wearable banking to include bill payments and own account transfers. To access this feature, Apple watch users simply need to download the Flash app to their watches through their iPhones, and they will be enabled to view their account balances and receive notifications for payment requests directly on their watches.


The Flash Digital Bank Account introduced a new video call identity verification feature that allows customers to open, activate, and operate an account without the need to visit a bank branch in person. This innovative feature allows for secure and convenient account management without the need for physical visits to the Bank. The unique Digital KYC process enables the Bank to complete the customer verification requirements remotely and activate the customer's Flash account which allows customers to get full access to the app without visiting the Bank.

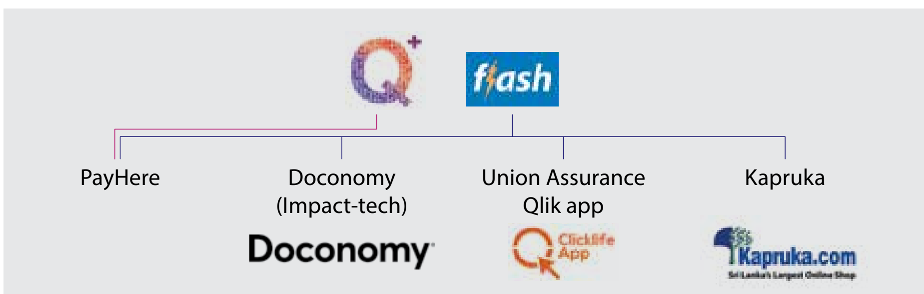
The "Loan against eFD," was launched to offer the Flash customer to request a cash loan against an eFD opened under a Flash product. Upon approval, the funds are transferred to the Flash account and the customer is notified via SMS/in app notice.

The expanded Flash toolkit was also redefined by the following alliances that saw the introduction of four new cooperative products.

In the ensuing years, Flash is envisaged to expand further to include a new user interface with enhanced user experience, extend Flash for overseas Sri Lankan citizens, and enable a Flash Teens Version.

### ComBank Digital: Swift and secure

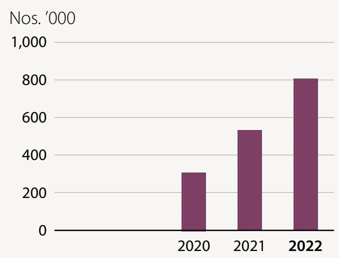
"ComBank Digital", the single omnichannel digital banking platform is one of the top 5 financial apps in use in Sri Lanka. The platform provides seamless transitions across a range of devices including desktop computers, tablet computers, and mobile phones for ComBank Digital Customers. It consists of internationally recognised user security features with industry standards and a vast range of services. ComBank Digital has been enhanced further to serve the requirements of business users with enriched features and functionalities. During the year, the Bank's ComBank Digital customer base grew by 51% YoY to over 800,000. The platform was launched in Bangladesh during the year.



ComBank Digital now enables payments to government authorities such as the Inland Revenue Department (IRD), Sri Lanka Ports Authority (SLPA) for cargo, vessel, and entry permit payments, Sri Lanka Customs, Employees' Provident Fund (EPF), Employees' Trust Fund (ETF), Import and Export Control Department (IECD), and the Board of Investment of Sri Lanka (BOI), providing its users with a convenient and secure platform.

The personal loan request feature on ComBank Digital makes it possible for customers to request a personal loan without visiting a bank branch. All correspondence is conducted via the user interface of the online platform, eradicating paperwork, and thereby promoting eco-friendly practices in addition to the convenience factor. This digital facility was adjudged the "Best Frictionless Credit Evaluation Initiative" in Sri Lanka by the Asian FinTech Academy (AFTA). The award was presented to the Bank at the "Asian Digital Finance Forum and Awards" at the Hilton Colombo in 2022, in recognition of the strides made by ComBank Digital to improve the digital banking experience for customers with enhanced functionality, convenience, and security.

Graph – 13: **Growth of the ComBank Digital customer base**




## State-of-the-art innovations: Efficiency internalised

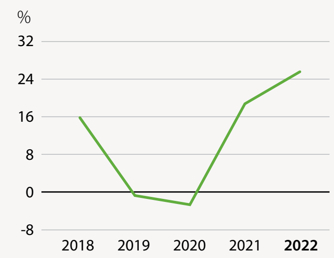
Through ongoing state-of-the-art innovation, the Corporate Banking arm enhanced customer experience during the year under review. The Introduction of the Customer Dash Board, Memorandum Circulation and Approval System (MCAS) workflow, and an EWS were some of the innovations of the year 2022.

The Customer Dash Board was developed and established during the year as a monitoring and analytical tool for the Relationship Managers and the management staff of the Department. The Dash Board provides portfolio details, product mixes, interest rate analysis, lending sector exposures, monthly trend analysis, non-performing advances, and overdue positions. MCAS workflow was introduced to replace the manual process of obtaining approvals which is cost-effective, time-saving and paperless. The Bank also developed a document tracking system to enhance internal efficiency which is currently deployed at the Trade Finance Division.

EWS models which are developed using data analytics techniques are expected to predict potential exposures showing signs of delinquency 9-12 months in advance. This provides the Lending Officers adequate lead time to attend to such warnings with appropriate and well-thought remedial measures.

Going forward, the Corporate Banking division hopes to deploy a Corporate Banking platform to ensure customer centricity with front end and back end capabilities cutting through all service and delivery points.

Graph – 14: **Growth in the Corporate Banking loan book**




## IT Road Map: Technology personified

According to the IT Road Map, moving from a traditional virtualised platform to an HCI platform (Hyper-Converged Infrastructure) was one of the key achievements completed during 2022 in terms of the Bank's Data Center (DC) infrastructure. This facilitates the Bank to expedite the adoption of digitalisation and an IT-driven culture to secure its premier position in Sri Lanka's banking industry. The enhancements include automated capacity management and planning, performance monitoring and analytics, predictive DRS (Distributed Resource Scheduling) and DRS Management, proactive high availability (HA), and private Cloud-ready infrastructure.

The other noteworthy developments introduced during the year to build a robust back end digital process to enhance customer experience include the following:

- The Core Banking server infrastructure was upgraded to the state-of-the-art IBM POWER 10 technology with an investment of Rs. 1.2 Bn. This upgrade has enhanced the performance, security, and reliability of the core banking system. Furthermore, the Bank invested in Fiserv's latest Signature core banking platform that would augment the Bank's digital footprint, fostering more sectoral participation and a diversified customer base.
- A dedicated IT monitoring team was convened to provide, faster response and resolution for IT system issues and take proactive measures to increase the availability of IT services, 24x7.
- The operational efficiency and the service level agreements (SLA) were enhanced by setting up a Help Desk operating 365 days a year.
- The security infrastructure was enhanced by investment in a state-of-the-art security infrastructure with IPS upgrades, Perimeter Firewalls, and Active Directory, increasing the confidence and trust of customers and other stakeholders in the Bank.
- The digital receipt facility was enabled for ATM & CRM transactions which will enhance customer convenience, and reduce transaction charges and paper wastage.
- To increase Data Analytics and Machine Learning, the Bank launched three machine learning predictive analysis models (Transaction Analysis, Sentiment analysis, and Macroeconomic analysis) to identify and target potential borrowers for cross-selling and up-selling opportunities. Powered by a Big data platform, the system is implemented with Hadoop clustering for the first time in the history of the Banking industry in Sri Lanka. Technologies such as Spark, Airflow, Scoop, Python & Tableau are used for data extraction, analysis, automation, and visualisation.
- ComB HR mobile Application was launched to keep abreast of the mobile-savvy new generation of employees. As an initial step, this application was launched with features such as a staff contact directory, allowance details, staff profile, a reference guide containing the details of the products offered by the Bank, and news feeds. The app will be equipped with more features to enhance the value proposition offered to the staff members.
- The IT audit was completed in 2022, with the overall objective of examining and evaluating IT systems, architecture, and human resources against the recognised international standards and controls whilst enrolling business requirements in the digital space. The key focus areas of this project were maintaining critical system availability, strengthening IT governance and compliance, enhancing the structure, resources, and internal processes, assuring industry standard information security best practices and establishing architecture governance.

## 4. Operational excellence →

### Operationally resilient: Embodiment of grit

The Bank's adaptability and operational resilience were tested in 2022. With COVID-19 being a significant disruption, the world embraced in 2020-22, a culture of remote work, increased virtual, technology-enabled operations, relaxed clocking hours, and a move towards net productivity models over a rigid clocking of time, had ripple effects on the Bank's overall journey. In the face of manifold disruptions, the Bank had to break away from the traditional brick-and-mortar mindset, and adopt readymade time-tested systems, to offset the threats by being a fast learner of the "new normal" of a pandemic that derailed life globally.

It is said that to learn, we must first unlearn, and in that articulation, there is a sense of letting change have its candidacy to cultivate a bevy of new developments. Such developments include minimising face-to-face interactions, a surge in digital communicating apps and software, and a gradual diversification towards nurturing a remote workforce that changed the way employees work and do business.

The Bank made significant headway during the year under review in adapting to newer paradigm shifts brought on by the pandemic. Propelled by integrated thinking, the Bank effected customised acumen and future-friendly designs pulling the Bank to newer milestones, in firm control of its foreseeable and distant destinies.

As a well-oiled financial engine, the Bank ensured close coordination of functional divisions that synergistically ensured value creation. The banking operation of 2023 and beyond, hopes to continue in that same ethos, to scale the heights by the dualism of leveraging its strengths and being agile, to navigate the complex operating context.

The numerous awards and accolades garnered by the Bank bears testament to the strength, innovation and resilience of the Bank. Please refer page 74 for the list of awards.

Key productivity and efficiency ratios depicting operational excellence is given in Table 14 on page 74.

Table – 14: **Productivity and efficiency ratios**

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Cost to Income ratio (Including taxes on financial services) (%) | 29.22 | 37.97 | 39.96 | 49.41 | 46.35 |
| Cost to Income ratio (Excluding taxes on financial services) (%) | 26.29 | 31.61 | 33.95 | 38.51 | 36.85 |
| Revenue per Employee (Rs. Mn.) | 53.787 | 31.720 | 29.605 | 29.377 | 27.462 |
| Profit per Branch (Rs. Mn.) | 79.480 | 82.251 | 57.050 | 59.320 | 61.557 |
| Profit per Employee (Rs. Mn.) | 4.485 | 4.654 | 3.238 | 3.363 | 3.490 |

### A transformed working environment: Metamorphosis of enterprise

The Bank metamorphosed strategically in the dualities of financial intermediation and maturity transformation in 2022, to ensure its readiness to offer uninterrupted services to its stakeholders through the implementation of the Business Continuity Management (BCM) framework. The Bank's continued to prioritise the human factor, deliver its services to customers, and ensure the health and well-being of the employees, whilst complying with regulatory requirements, and adhering to good governance principles, at all times. The key principles of the BCM include,

- Support the Bank's core banking systems and assuring that all mechanisms and processes are marshalled by the Bank's guiding principles to ensure service continuity.
- Ensure availability of the systemically important payments and securities settlement systems by meeting the predefined service levels after a disruption.
- Minimise the financial, legal, and other operational risk associated with disruption of operations or failures.
- Protect human life and ensure minimal exposure to hazards and dangers within the Bank's ecosystem.
- Safeguard the Bank's image and reputation.
- Minimise the impact of disruption and ensure that maximum resources were streamlined to resume normal operations by implementing effective incident and crisis management and business continuity.

### Risk aversion and management: The safety net

The Bank continued to effectively manage its risk appetite and risk tolerance, especially in the context of the challenges faced by the banking sector. The Bank continued to focus on preserving the quality of the loan book, managing interest rates, and liquidity while improving compliance to minimise reputational risk.

Conducting risk-control self-assessment exercises, regular evaluations of risk management processes and tools, and probing the Key Risk Indicators (KRIs) in relation to the traffic of risks were integrated into the culture of the Bank. The Bank's compliance with relevant laws, regulatory guidelines, and internal controls in all areas of the business operations, was pragmatic in the effective management of risks. Key risk areas included credit, operational market, liquidity, IT, and other risks that can have negative bearings on the sustained growth of the Bank, affecting both governance and operations.

For 2023, the compass is pointing towards prudent, cohesive, and continued growth and strategic leveraging of key risks that would play an important role in catalysing cautious prudence into improved confidence. In particular, the Bank will focus on managing emerging risks - such as model risk, conduct risk, bribery risk, and more to create sustainable value for its stakeholders.

### The transformation of the banking model: Metamorphosis of core elements

The banking business model is undergoing a radical shift, driven by new competition from expanding utility companies and emerging Fintechs, the quantum leaps of blockchain and cryptocurrencies powered by digitisation and convenience, and mounting regulation and compliance pressures. Furthermore, the banking industry is facing a new era that requires banks to future-proof their risk exposures without having any historical evidence or data on how to predict or tackle the risk, with a limited window of opportunity to adapt and respond to emerging scenarios.

Technology is blurring the contours of the banking industry, a risk that mandatorily demands an upsurge of digital products, which require upskilling in digital literacy of the front end of customer interfaces and internally, employees requiring stronger proficiency in tailormade systems. The Bank reviewed and revised the disaster recovery plans while managing the footprint of COVID-19 and associated phenomena such as long COVID and co-morbidities that has a bearing on the productivity and health of the employees.

Resources were allocated to manage the diverse risks whilst nurturing a positive risk culture across the Bank, top-down, with the Board of Directors, Corporate Management, and the Board Integrated Risk Management Committee setting strong precedence. This included the use of EWS with a greater emphasis on real-time data and machine learning models and the gradual restoration of Foreign Currency Reserves to its former strengths.

### Remuneration and job security: Shielding from the perfect storm

In a climate of increased financial toll, the Bank strived to ensure that the employees were endowed with continuing remuneration on par or over industry standards. This enabled safeguarding the employees from the stresses of the pandemic. For more details, please refer "Remuneration and Job Security: Generosity Personified" section on page 87.

### Collective bargaining: The dialogues

Demonstrating a hand-in-hand partnership with Commercial Bank Employees Union (CBEU), the Bank signed an agreement with CBEU in 2021 for a further 3 years. During the year under review, the Bank continued to engage in cordial relations with the CBEU, with negotiations fueling dialogue between the two entities, provisioning two-way rewards to the Bank as well as the employee union.

### Training and development of staff: Stepping up

The Bank engaged in a range of training and development schemes to ensure that the employees are custodians of lifelong learning and strategic self-development that can be vehicles of self-actualisation. The above is narrated in section on Staff Training: Learning Curves on page 88.

The Bank believes that upholding recognised standards and principles for labour practices, human rights and occupational health and safety is essential to remain productive. Especially in a challenging context, it was important to prevent burnout and exhaustion and bolster morale, and provide employees with an environment where they could flourish and drive the success of the Bank. Even through the difficult circumstances, camaraderie and team spirit of the staff remained strong and their productivity remained high and consistent.

# Responsible organisation – Shared value

Several elements converge into a synergistic operation to make the Bank a responsible organisation, enabling it to sustainably create and share value.

Each of the functional departments steer the operations of the Bank to create sustainable finance to meet the financial ambitions of its varied stakeholders, and to build long-term partnerships. In this process, the Bank is guided by the following principles and standards, as specified by its Sustainability Framework.

- The CBSL Roadmap for Sustainable Finance in Sri Lanka
- The CBSL Direction on Sustainable Finance Activities
- Sustainable Banking Principles of Sri Lanka Banks' Association
- United Nations (UN) Global Compact Principles
- UN Sustainable Development Goals

The Bank has mapped its sustainability related key performance indicators (KPIs) with the CBSL Road Map for Sustainable Finance in Sri Lanka. The Road Map sets out a series of activities that revolve around six focus areas to implement sustainable finance.

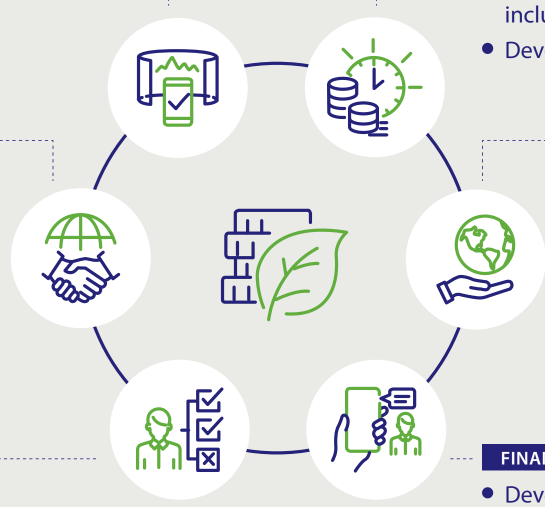
The six focus areas are,

- Financing Vision 2030
- ESG integration into financial market
- Financial inclusion
- Capacity building
- International cooperation
- Measurement and reporting

The Road Map further sets out short, medium and long-term economic, social and environmental goals. Achieving these goals to transit towards a green, inclusive, and balanced economy in Sri Lanka requires large investments in eight sectors - agriculture and food, marine resources, education, transport, energy, urban development and physical planning, health, and water. There is a need to facilitate financial institutions to develop innovative sustainable finance products and services to implement Sri Lanka's sustainable development agenda, which at the same time opens up new business opportunities for financial institutions and creates business drivers for sustainable finance.

The Road Map has specified action plans for financial institutions, leasing companies and capital markets under the six focus areas listed above. Accordingly, the Bank has developed a number of KPIs under each of the six focus areas, with responsibilities assigned for relevant departments, identified the underlying SDGs, and monitoring the progress on a quarterly basis.

Figure – 14: **The Pillars of Sustainable Finance**



**MEASUREMENT AND REPORTING**

- Establish monitoring and evaluation mechanisms
- Include ESG factors in internal rating systems
- Publicly disclose ESG performance and impact

**FINANCING VISION 2030**

- Innovate loan and savings accounts for green economy
- Support green and socially – inclusive projects
- Develop sustainable bond products

**INTERNATIONAL COOPERATION**

- Participate and learn from international collaboration platforms
- Knowledge sharing and capacity building with international partners
- Mobilise international resources and funding

**ESG INTEGRATION INTO FINANCIAL MARKETS**

- Develop internal ESG risk management strategies
- Disclose positive and negative environmental and social impacts
- Disclose sustainable finance policies and programs

**CAPACITY BUILDING**

- Develop internal ESG risk management training
- Hire sustainable finance professionals
- Develop campaigns centered on sustainable finance products and services

**FINANCIAL INCLUSION**

- Develop more accessible, affordable and efficient financial products and services
- Explore the application of fintech and digital tools
- Entrepreneurship development and ethical product and service offerings

Whilst aligning with the above guiding principles, the Bank makes banking inclusive and affordable whilst preserving the environment and ensuring no one is left behind in the journey towards long-term sustainability.

As a responsible organisation, the Bank nurtures a green and safe workplace, a conducive work culture, and a sustainable supply chain.

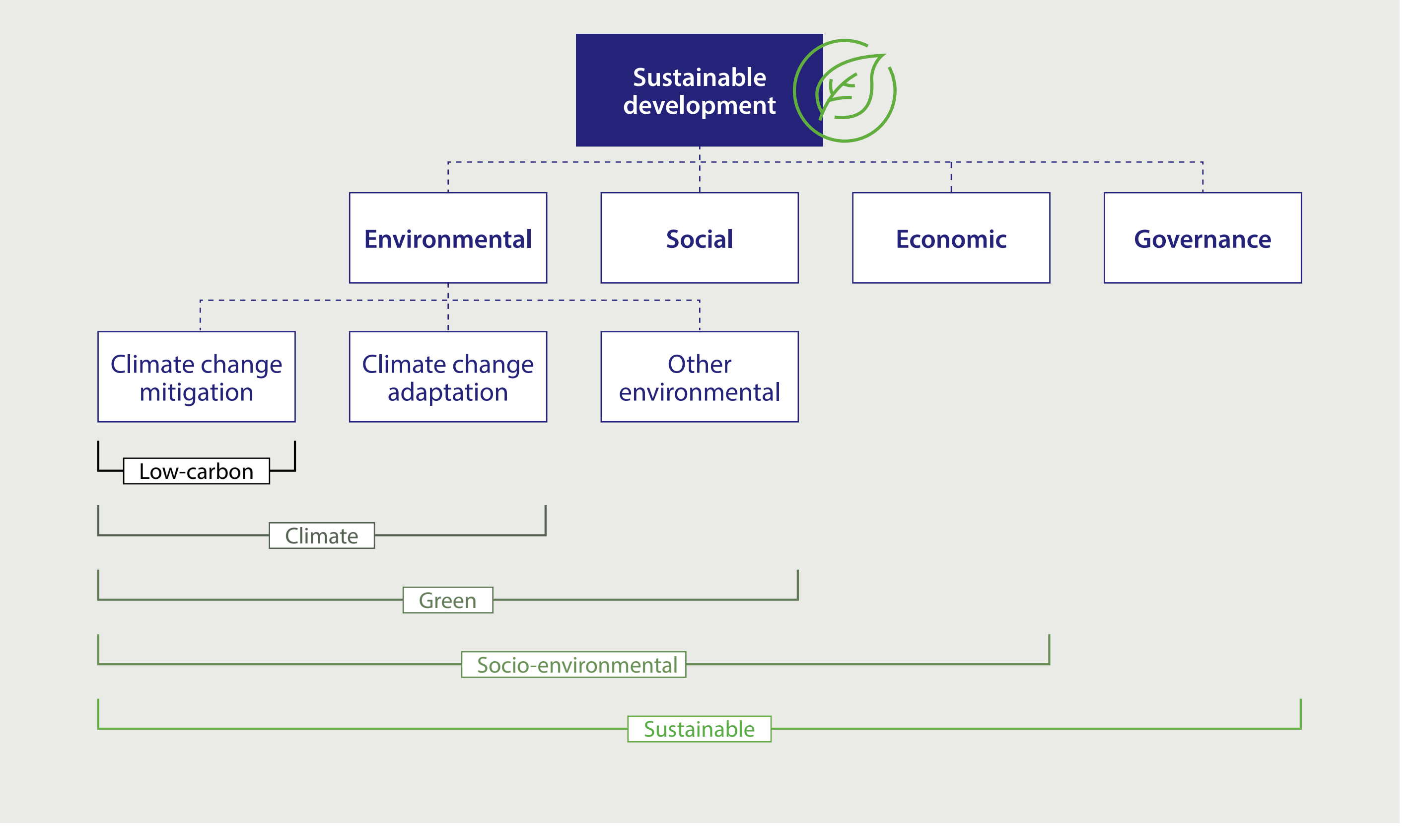
## Green and safe workplace

### 1. Sustainable finance: Affordable and inclusive finance

Sustainable finance includes a broad range of elements, namely the environment (low-carbon, climate and green facets), society, economics and governance. As a leading bank in Sri Lanka, Commercial Bank stays true to the core values of sustainable finance, championing social, environmental, economic and governance aspects across all its operations.

The KPIs of Sustainable Finance that the Bank measures its core values of sustainability from the grassroots level and upwards highlights the Bank's commitment towards the perpetuation of society and nature, as part of its mandate.

Figure – 15: **Sustainable finance KPIs**




*Source: UNEP, 2016*

# Climate Position Statement of Commercial Bank of Ceylon PLC

Commercial Bank of Ceylon PLC is the leading private bank in Sri Lanka. It also provides Banking and Financial Services to South Asian Countries. The Bank firmly believes that;

Natural resources are finite and need to be used sustainably

The transition to a low-carbon economy is essential and systematic transition does not only bring substantial benefits to the planet earth but lead to business and economic growth opportunities

It is imperative that global warming is limited to well below 2 Degrees Celsius and pursue effort to limit to 1.5 Degrees Celsius compared to pre-industrial level, as committed to the Paris Pledge for Action

The main geographic locations that the Bank operates; Sri Lanka, Bangladesh, Maldives, and Myanmar are Nations with ambitious National Determined Contributions to limit the Greenhouse Gas (GHG) Emission for climate change mitigation. The Bank has duly identified its role in providing financial support to its customers in mitigating climate change effects through Climate Financing.

Even with the current levels of GHG Emission in the atmosphere, changes in the climate are likely and will impose serious consequences to many sectors in the economies. Adaptive actions are therefore necessary in addition to the efforts made to mitigate climate change. Further, Asia is regularly identified as one of the regions hardest hit by climate change. Hence, adaptation to effects of climate change through support to climate resilient agriculture, water resources management, and disaster risk management, etc. are priorities. Accordingly, the Bank assesses climate risks and opportunities associated with banking activities and integrate climate adaptation considerations to the Banking Operations, as well as to its product and service offerings.

Climate Financing is a subset of the Bank's broader Green Financing commitment to positively contribute towards safeguarding the environment. Our Green Financing Strategy, reinforces the commitment to integrate climate change mitigation and adaptation actions and environment safeguard factors into its business strategies, risk management, and governance.

Our desire is to align our operations towards **NetZero by 2050**, supported by a climate transition plan.

While sustainable banking includes a strong suite of services, the Bank has established sound monitoring and evaluation processes, and a comprehensive reporting mechanism to report the progress of sustainable banking. In Financial Year 2022, the Bank collaborated with Market Development Facility organisation (MDF), an NGO managed by Australian Government that provides sustainable economic development to develop farmers and micro producers in relation to sustainable finance. Supporting and developing members of community-based organisations including farmers, fishermen, cottage industries, women-led and other micro businesses facilitate a sustainable supply chain.

The Bank has established an EWS to identify underperforming customers and lend the necessary support to turnaround the business and improve their financial position. At the SME Trade Fair, the Bank collaborated with the Sustainable Energy Authority (SEA) to conduct an awareness session to SMEs, to enhance their business acumen and financial literacy.

The Bank also granted 32 Flexi-Payment Plan loans to set up solar powered units at a cumulative value of Rs. 24 Mn. during the year under review championing financial inclusion and green practices simultaneously.

The Bank uses key KPIs as direct measurables to assess the Bank's objectives in both its corporate mandate and its community and environmental responsibilities. The following table includes 11 key KPIs out of the suite of KPIs the Bank uses to assess its sustainable banking performance, along with the respective the CBSL sustainability pillar, the Bank's sustainability pillar, and the United Nations Sustainable Development Goals (UN SDGs) the Bank contributed to.

Table – 15: **Aligning the Bank's sustainability pillars with those of CBSL**

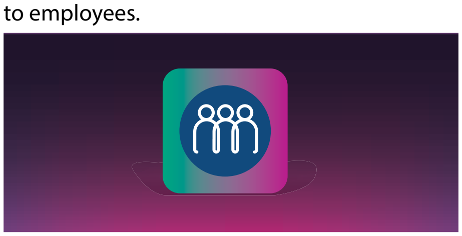
| | The CBSL pillar | Commercial Bank pillar | UN SDG |
|---|---|---|---|
| New strategies and services introduced to support Micro customers | Financing Vision 2030 | Sustainable Banking | 8 DECENT WORK AND ECONOMIC GROWTH |
| Increasing Green Financing disbursements by 25% | Financing Vision 2030 | Sustainable Banking | 7 AFFORDABLE AND CLEAN ENERGY |
| Develop innovative loan products in line with Bank's green commitment | Financing Vision 2030 | Sustainable Banking | 8 DECENT WORK AND ECONOMIC GROWTH |
| Achieve growth in WSME portfolio of the Bank | Financing Vision 2030 | Sustainable Banking | 5 GENDER EQUALITY |
| Promote green loans and leases, including initiatives such as rooftop solar, hydro, and wind power schemes, to encourage sustainable and environmentally-friendly practices. | Financing Vision 2030 | Sustainable Banking | 7 AFFORDABLE AND CLEAN ENERGY |
| Promote financing export-oriented projects and import substitutes | Financial inclusion | Sustainable Banking | 8 DECENT WORK AND ECONOMIC GROWTH |
| Ensure Regulatory Compliance related to environment and social risk management, disclosures & reporting | ESG integration into financial market | Sustainable Banking | 7 AFFORDABLE AND CLEAN ENERGY |
| Participate in and learn from international collaborations, platforms and partnerships | International cooperation | Sustainable Banking | 17 PARTNERSHIPS FOR THE GOALS |
| Establish monitoring and evaluation mechanisms | Measurement and reporting | Sustainable Banking | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION |
| Arranging training for staff to create awareness on sustainable finance | Capacity building | Responsible Organisation | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION |
| Minimise paper usage and ancillary resources | Financing Vision 2030 | Responsible Organisation | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION |
| **11 Key Performance Indicators** (A Subset) | **6 pillars** | **2 pillars *** | **5 SDGs** |

**Note: there are three pillars in the Bank's overall Sustainability Framework out of which two (Responsible Organization (RO) and Sustainable Banking (SB)) are represented here.*

### 2. Peaking in tough times: Optimised operations

The Human Resources Division of the Bank functioned throughout 2022 to steer its employees through the stresses of the unprecedented operating context. The Bank extended stewardship of care to each employee in a time of crisis, leveraging remedial measures to not just shift gears to face local stresses but to interconnect, synergise, and efficiently manage the human resources of the Bank. In a year that saw the apex leadership of the Bank change hands, the HR division inculcated a culture of supporting and engaging the employees to be resilient and agile.

Several programmes were conducted to facilitate business operations during the year under review. The Bank deployed a fleet of 20 buses to enable employees to commute to work safely. Several strategic promotions were effected and focus was given to employee training and development by executing different learning platforms and training modules. Furthermore, employee career planning, succession planning of middle management and at department levels, leadership development, and improving female participation in management were areas of priority as well. The employee app (ComLink) was launched and a salary survey was conducted to enhance the value proposition delivered to employees.



To effectively manage the human resources in a time of crisis, the HR division temporarily relocated staff members to the Bank branch nearest to the employee's home. Amid a challenging period, the Bank was successful in providing an uninterrupted service, although some Bank branches functioned for a limited number of hours. 792 staff members infected with COVID-19 were provided with medical facilities with minimal delay while 107 staff members were provided quarantine facilities, all at the expense of the Bank.

### Employee morale and safety: Motivating vocations

The Bank gave high emphasis to employee morale and safety in a disruptive environment that prevailed during the year. Buffering of employees from both external and internal stresses was handled with steadfast vigilance while leveraging care. Cushioning of employee livelihoods, health, and well-being, while championing the collective strength of the employee base were key events of the Bank in the year 2022.

### Adapting and adopting: Scaling operations

To ensure uninterrupted banking operations amid the crisis, the Bank astutely managed stocks of consumables, found pragmatic partners in the supply of fuel for the generation of electricity in a time of fuel shortages, and lowered operational expenses using effective strategies.

Whilst strengthening the security for all its stakeholders, the Bank strategically planned to gradually phase out electricity generation through power generators, and to install solar panels, when possible, to move to renewable energy generation. Although solar panels are not feasible for all Commercial Bank branches, there is a strong movement towards cleaner energy, with off-grid solar power generation now an actuality in 71 Bank branches.

Cost optimisation was another initiative that ensured the continuity of banking operations, while the Bank undertook an "open" idea box policy for all employees of the Bank on how to improve service delivery during volatile times. Furthermore, branches where business volumes were relatively low were scaled down to better navigate lean times of growth.

### An expanding ecosystem: Prudent reach

The Bank augmented its branch network by setting up a branch in Kirillawala in 2022. Two more branches in Anamaduwa and Kanthale will be opened in the ensuing year.

Being a leader in sustainable eco-friendly practices, the Bank made quantum leaps in going green, by implementing green architecture models, which are now synonymous with the Bank branches in Jaffna and Trincomalee. This has helped to reduce carbon and water footprints. Going forward, more branches will be equipped with renewable energy generated from solar panels to streamline the Bank's sustainability focus.

The Bank has fully adopted one-to-one communication with customers by way of inbound and outbound calling through the Bank's 24x7 tri-lingual integrated Contact Centre. This provides speedy and convenient assistance to all customer queries in addition to providing the Bank the ability to directly connect with customers in a sustainable manner. Customer satisfaction on the services offered by the Contact Centre of the Bank showed the highest ratings compared to competitors.

Table – 16: **Power generated through renewable sources**

| | **2022** | 2021 |
|---|---|---|
| Power generated through renewable sources (%) | **4.38** | 2.35 |
| No of branches connected with off-grid solar power generation | **71** | 66 |

# Network of delivery points in Sri Lanka and Bangladesh

## Network of delivery points in Sri Lanka

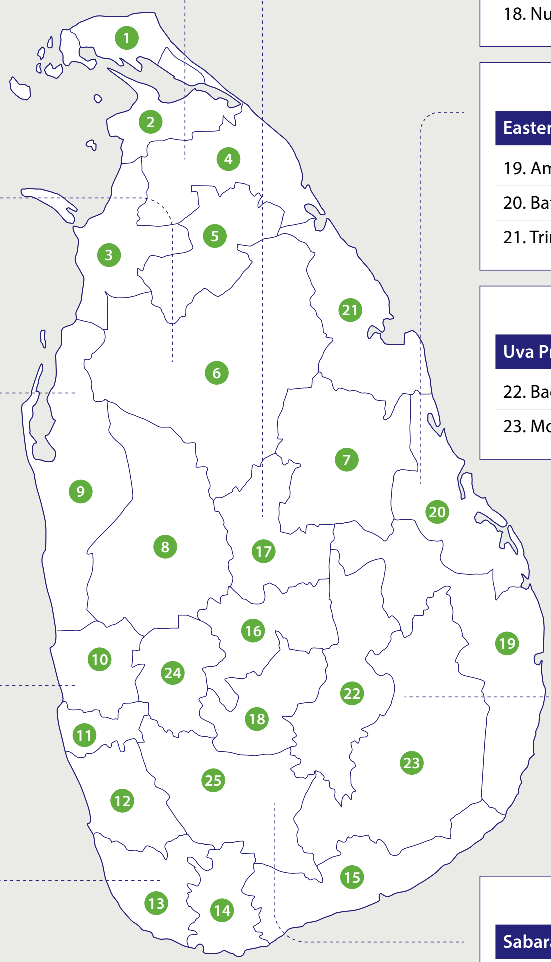
| Northern Province | Branches 18 | ATMs 26 | CRMs 28 |
|---|---|---|---|
| 1. Jaffna District | 12 | 16 | 19 |
| 2. Kilinochchi District | 2 | 3 | 3 |
| 3. Mannar District | 1 | 1 | 1 |
| 4. Mullaitivu District | 1 | 1 | 1 |
| 5. Vavuniya District | 2 | 5 | 4 |

| North-Central Province | Branches 8 | ATMs 17 | CRMs 9 |
|---|---|---|---|
| 6. Anuradhapura District | 6 | 10 | 7 |
| 7. Polonnaruwa District | 2 | 7 | 2 |

| North-Western Province | Branches 23 | ATMs 50 | CRMs 32 |
|---|---|---|---|
| 8. Kurunegala District | 14 | 39 | 19 |
| 9. Puttalam District | 9 | 11 | 13 |

| Western Province | Branches 134 | ATMs 331 | CRMs 158 |
|---|---|---|---|
| 10. Colombo District | 78 | 178 | 94 |
| 11. Gampaha District | 43 | 125 | 49 |
| 12. Kalutara District | 13 | 28 | 15 |

| Southern Province | Branches 29 | ATMs 54 | CRMs 32 |
|---|---|---|---|
| 13. Galle District | 13 | 29 | 16 |
| 14. Matara District | 6 | 10 | 6 |
| 15. Hambantota District | 10 | 15 | 10 |



| Central Province | Branches 22 | ATMs 45 | CRMs 24 |
|---|---|---|---|
| 16. Kandy District | 15 | 28 | 16 |
| 17. Matale District | 3 | 10 | 4 |
| 18. Nuwara Eliya District | 4 | 7 | 4 |

| Eastern Province | Branches 10 | ATMs 17 | CRMs 16 |
|---|---|---|---|
| 19. Ampara District | 4 | 6 | 5 |
| 20. Batticaloa District | 5 | 9 | 8 |
| 21. Trincomalee District | 1 | 2 | 3 |

| Uva Province | Branches 9 | ATMs 15 | CRMs 11 |
|---|---|---|---|
| 22. Badulla District | 6 | 10 | 8 |
| 23. Monaragala District | 3 | 5 | 3 |

| Sabaragamuwa Province | Branches 16 | ATMs 25 | CRMs 20 |
|---|---|---|---|
| 24. Kegalle District | 6 | 11 | 6 |
| 25. Ratnapura District | 10 | 14 | 14 |

Number of Branches
**269**

ATM
Automated Teller Machines (Off-site = 203)
**580**

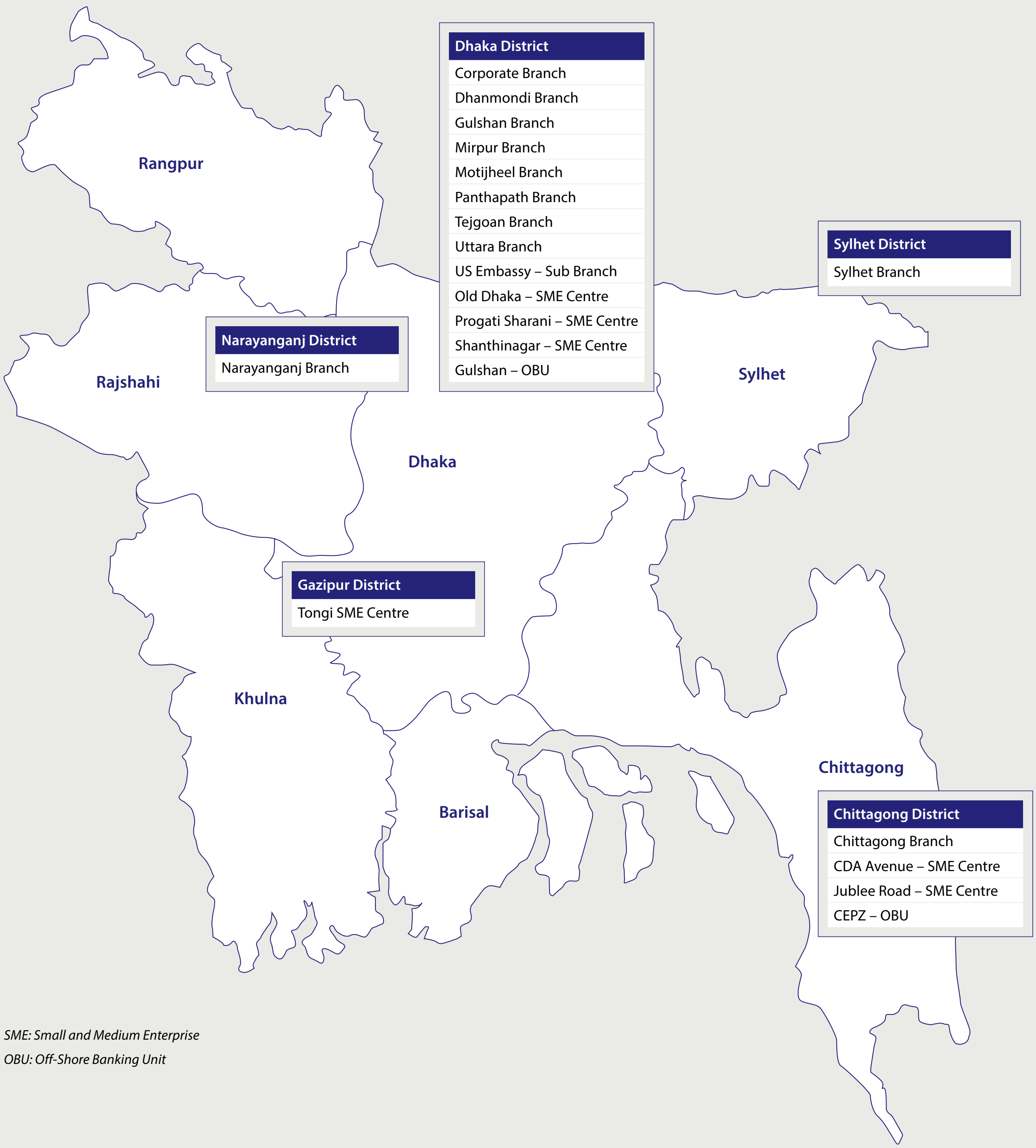
CRM
Cash Recycler Machines (Off-site = 22)
**330**

CDM
Cash Deposit Machines
**38**

EDM
Envelop Deposit Machines (for cheques)
**25**

ACDM
Automated Cheque Deposit Machine
**20**

## Network of delivery points in Bangladesh




*SME: Small and Medium Enterprise*

*OBU: Off-Shore Banking Unit*

| Number of Branches | Automated Teller Machines (Off-site = 7) | Cash Deposit Machines | Envelop Deposit Machines (for cheques) | KIOSK |
|---|---|---|---|---|
| 20 | 24 | 1 | 1 | 1 |

### A digitalised culture: At the forefront

There was a significant reduction in the paper footprint of the Bank, which was visible from several cross-sectional areas of internal and outward processes. Digitisation of inward remittances enabled to reduce the paperwork originating from remittances-based printing and the automation of the external audit process too contributed to the move towards a paperless culture.

The upgrade of the AS400 server empowers the core banking system to cater to increasing workloads and traffic changes, whilst providing high performance, securely and reliably. The automation of the Credit Information Bureau (CRIB) system has enhanced the decision-making process of the Bank, and reduced the man hours and related costs. The convenience of an integrated loan appraisal system which resulted in enhanced efficiency in report generation was a novel development during the year.

### Green finance: A verdant manifesto

Commercial Bank's commitment towards green measures is articulated through the Bank's Sustainability vision, "**to be a responsible financial service provider by enabling and empowering people, enterprises, and communities, towards environmentally-responsible, socially-inclusive and economically-enriching growth**".

The Bank's climate strategy paves the way for climate considerations to be integrated into the Bank's core product and service offerings via a three-pronged approach; Green Financing, Internal capacity building to support Green Financing, and supporting clients and customers to reduce their environmental footprint.

**Green Financing Vision of Commercial Bank:**

1. To become the No.1 Green Financing institution in Sri Lanka
2. To commit over USD 1 Bn. to Green Financing over the period 2017 to 2030
3. To grow the Green Financing portfolio to a significant part of the Bank's lending portfolio

Green Finance has been a focus of the Bank in the last 5 years, even in the absence of stringent prescriptive Green Banking standards. The Bank implemented a green finance taxonomy system – a methodology to safeguard the environmental footprint, and to identify GHG emitting activities of the borrowers, even before the CBSL issued the Mandatory Green Finance Taxonomy. The voluntary measurements were largely based on the climate footprint, while the external prescribed system put in place by the CBSL is more multi-channeled with climate, environment, pollution, ecological change, and social impact, all being necessary components of the green finance taxonomy.

Figure 16: **Bank's sustainability journey**

- First Sri Lankan Bank to become wholly Carbon Neutral
- First Bank in Sri Lanka to implement a Social and Environmental Management System (SEMS) in 2010, at a time when it was not a mandatory requirement
- First Sri Lankan Bank to become signatory to the 10 Principles of the UN Global Compact (UNGC) and still the only Bank on the Steering Committee
- First Bank in Sri Lanka to venture into Green Financing
- Founder Member of the Business & Biodiversity Platform, Sri Lanka
- Core Group Member of the SLBA's Sustainable Banking Initiative
- First Bank in the region and the 4th Bank in the world to introduce a tool (approved by the UNEP) for its retail customers to measure the environmental impact of spending, via its Flash Digital Bank Account App
- Adoption of IFC Performance Standards
- One of the first banks to receive a GHG Emissions certificate

In the current context, the Bank lending was used to power renewable energy plants, that borrowers sold to the Ceylon Electricity Board which has a monopoly in purchasing electricity from private vendors. However, lending was subdued during 2022, due to the high interest rates that prevailed and the CEB tariff hike.

In 2020, the Bank secured a USD 50 Mn. loan from the UK-based CDC Group, specifically to increase the Bank's share of Green Financing to SMEs, in turn helping Sri Lanka to achieve national climate goals. Furthermore, Commercial Bank was one of the first to apply the Social and Environmental Risk Management System (SEMS) in Sri Lanka to screen lending projects to contain practices that could harm the environment. This has continued to ensure the Bank provides lending and carries out business with only environmentally-friendly organisations. In parallel, an internal drive was initiated to encourage and motivate staff members to promote green finance solutions to customers. Strong emphasis was also placed on promoting the Diribala green development loans to facilitate the installation of roof-top solar power panels. The Green Financing portfolio of the Bank increased to 16.476 Bn. during the year with a growth of 5.71%.

The Bank has adopted the Climate Assessment for Financial Institutions (CAFI) tool developed by the International Finance Corporation (IFC), a member of World Bank Group, to measure and report on the GHG emission reduction attributed to the Bank's Green Financing portfolio. The Bank adopted digital signatures as an operational process whereby allowing customers to submit digital documents instead of physical paper-based documentation to the Bank.

**Commercial Bank is the first Sri Lankan bank to accept digitally signed documents from business customers using LankaSign operated by LankaClear, the only commercially operating Certification Authority in the country that complies with the Electronic Transactions Act.**

As a Green organisation, the Bank places strategic importance in migrating customers to sustainable digital banking channels. The Bank has introduced six Banking Apps (ComBank Digital online banking platform, Flash Digital Bank Account, Q+ Payment App, ComBank ePassbook, ComBank eSlip and ComBank Remit Plus) and social network Banking with WhatsApp Banking and Viber Banking. During the year under review, the Bank continued to encourage customers to migrate to Digital Channels, aligned with the Bank's digital vision of building a digital economy where each customer is engaged at their level of techno-literacy. The Bank's Digital Road Map is focused on retail customers encompassing paperless and sustainable digital products, services, processes, and touchpoints. The number of customer transactions carried through digital channels compared to over-the-counter transactions has increased to 246% in 2022. Furthermore, the Apps introduced by the Bank as a green initiative have gained the highest ratings from users compared to the competitors, for all parameters.

Table – 17: **The performance of Commercial Bank mobile Apps**

| Mobile Apps | Satisfaction rating scale | |
|---|---|---|
| | Commercial Bank | All competitors |
| Ease of downloading the application | 4.04 | 3.48 |
| Ease of logging on to the application | 3.91 | 3.73 |
| Ease of navigating and transacting through the application | 4.10 | 3.61 |
| Level of security offered | 4.18 | 3.74 |
| Time taken to transact on telephone banking | 3.95 | 3.72 |
| Technical and customer support offered for the service through in-app support and call centre | 4.10 | 3.64 |
| Ease of checking account statements/transactions via mobile App | 4.08 | 3.82 |
| Variety of functions offered through mobile banking/mobile App (balance inquiries, fund transfers, bill payments etc.) | 4.12 | 3.58 |
| Loyalty schemes offered | 4.02 | 3.64 |
| Average | 4.06 | 3.66 |

**Satisfaction rating scale**

**1** – Not at all satisfied **2** – Not satisfied **3** – Satisfied
**4** – Very satisfied **5** – Extremely satisfied

*Source: Kantar retail customer satisfaction survey 2021*

Figure 17: **Composition of the green financing portfolio – 2022**

**46%**
**Renewable energy projects (Solar, hydro, wind, biomass)**
as at December 31, 2021 – 41%

**6%**
**Environmentally friendly transportation and related services**
as at December 31, 2021 – 10%

**19%**
**Climate smart agriculture**
as at December 31, 2021 – 17%

**8%**
**Green building development, construction, operations and maintenance projects**
as at December 31, 2021 – 5%

**5%**
**Water saving – consultancy and related service providers**
as at December 31, 2021 – 6%

**16%**
**Other green advances**
as at December 31, 2021 – 21%

## 3. Workplace culture

### Raising the employee morale through engagement: Rising to the occasion

To empower employee engagement, the backlog of events from 2020-2022 was brought forward culminating in the Annual Award Ceremony that took into consideration a two-year window. The annual award ceremony was a grand affair, celebrating the employee contributions in a testing time and rewarding employees who stood above the rest in their contribution to the continuity of banking operations. Furthermore, events such as a fun-packed employee carnival, and a Christmas Party, are some of the events that were organised to boost employee morale and to ingrain a sense of *joie de vivre* within the Commercial Bank family.

To flourish is to transcend the contemporary "pandemic" limitations, and the employees brought respect and loyalty to both the Bank and the banking family, by providing yeoman service to the stakeholders, who have trusted the Bank with their valued savings. The morale was a key contributing factor boosted by a culture that draws from personalising and humanising employees, harvesting the best from an employee's work ethic, and ensuring that their feel-good factor is maximally weatherproofed from unwanted stresses. The Commercial Bank family newsletter "Compulse" continued to engage the employees, keeping each other contemporary and endeavouring on their vocational pursuits, as well as in hobbies and pastimes. There was also improved connectivity and communication between Bank branches, setting a precedent for more fluency in cross-functional and cross-branch dialogues.

Furthermore, the loyalty and 25 years of service of 90 employees of the Bank was celebrated at the 2022 edition of the Bank's annual Seniority Awards ceremony where the employees were felicitated with valuable gifts and certificates of appreciation. Many of the recipients of these awards were school leavers when they joined the Bank in 1997, and now hold key positions in Corporate Management and in various departments and branches.


## The banking vocation: Impassioned caretakers

The banking vocation is multifaceted in its many roles and responsibilities in its primary functions as a financial intermediary and a maturity transformer. To keep the banking operations at a peak, there should be both job security and as well as a means to develop an employee's repertoire of skills and talents. The banking vocation in 2022, stood uplifted by the vocational purposing of each employee to the bigger banking ecosystem, the provision of diversified training programmes, a special monthly allowance to staff in certain grades, hosting of talent shows for the development of employee skill sets, provision of work-from-home and hybrid work arrangements, facilitation of commuting of the employees by pioneering logistics (a bus service), and appreciating the staff by rewarding promotions, awards, and financial reimbursements.

While several facets changed in their outlook, the ergonomic landscapes and the backdrop of advertising and marketing of hiring processes did not undergo significant modifications in 2022. In the current operational context, there is anticipation that there will be a re-evaluation of the operational dimensions of the Human Resources Division in 2023.

## Brilliant colours of diversity: Financial strokes

While bringing the colours of diversity of the workforce to the fore, the Bank engaged in many cultural activities that connected with its diversified workforce. Christmas Carols, and other events were held to connect with the cultural, ethnic, and religious identities of the workforce, and to inculcate a sense of belonging to the bigger picture. Female participation in management was improved by the promotion of 35 employees into Senior Management. Examples of gender-sensitive practices assured by the Bank's leadership include the provisioning of mandatory leave for mothers-to-be during the third wave of the COVID-19 pandemic, thereby ensuring paramount safety before any other factor.

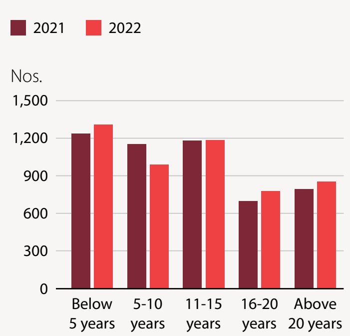
The Bank's promotion policy elaborates the staff promotion procedure for all grades. It includes appointment/career advancement for all grades and promotions up to the level of Corporate Management. As a policy, all promotions as well as recruitments are done based on merit – on a scheme which clearly sets out the relevant criteria. Through these established criteria, gender biasness is eliminated from the Bank's promotion procedure.

Diversity is seen as an essential palette that provides colour to the banking units and engaging the workforce to grow in a multi-cultural landscape to improve each employee's *raison d'etre* (purpose of life). Such diversity fulfills not just an ecosystem role, but also brightens the Banking family with their unique colours.

Table – 18: **Employees by category and gender – Bank**

| As at December 31, 2022 | Age 18-30 years | | Age 31-50 years | | Age over 50 years | | Total | % |
|---|---|---|---|---|---|---|---|---|
| | Male | Female | Male | Female | Male | Female | | |
| Corporate Management | – | – | 4 | – | 21 | 5 | 30 | 0.59 |
| Executive Officers | 86 | 54 | 1,409 | 296 | 220 | 112 | 2,177 | 42.51 |
| Junior Executive Assistants & Allied Grades | 876 | 240 | 939 | 297 | 29 | 68 | 2,449 | 47.82 |
| Banking Trainees | 273 | 143 | 6 | 1 | 2 | – | 425 | 8.30 |
| Office Assistants & Others | – | – | 9 | – | 30 | 1 | 40 | 0.78 |
| **Total** | 1,235 | 437 | 2,367 | 594 | 302 | 186 | 5,121 | 100.00 |
| As a % of total | 24.12 | 8.53 | 46.22 | 11.60 | 5.90 | 3.63 | 100.00 | |

Graph – 15: **Service period analysis of employees as of December 31**




Graph – 16: **Age analysis of employees as of December 31, 2022**

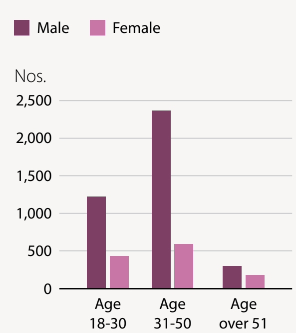


Table – 19: **Employees by type and gender**

| As of December 31, 2022 | Sri Lanka | | Bangladesh | | Total | |
|---|---|---|---|---|---|---|
| | | % | | % | | % |
| **Permanent and contract employees** | | | | | | |
| Female | 1,136 | 23.65 | 81 | 25.55 | 1,217 | 23.76 |
| – Permanent | 1,135 | 23.63 | 67 | 21.14 | 1,202 | 23.47 |
| – Contract | 1 | 0.02 | 14 | 4.42 | 15 | 0.29 |
| Male | 3,668 | 76.35 | 236 | 74.45 | 3,904 | 76.24 |
| – Permanent | 3,667 | 76.33 | 191 | 60.25 | 3,858 | 75.34 |
| – Contract | 1 | 0.02 | 45 | 14.20 | 46 | 0.90 |
| **Total** | 4,804 | 100.00 | 317 | 100.00 | 5,121 | 100.00 |
| **Outsourced employees** | | | | | | |
| – Female | 220 | 39.29 | 4 | 4.17 | 224 | 34.15 |
| – Male | 340 | 60.71 | 92 | 95.83 | 432 | 65.85 |
| **Total** | 560 | 100.00 | 96 | 100.00 | 656 | 100.00 |

*All employees of the Bank are full time employees.*

Table – 20: **Female employees as of December 31, 2022**

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Number of female employees | 1,217 | 1,201 | 1,185 |
| Female employees in Senior Management positions as a percentage of total employment (%) | 0.98 | 0.92 | 0.92 |
| Percentage of female employees promoted (%) | 19.13 | 16.80 | 21.80 |
| Percentage of females recruited (%) | 29.00 | 35.50 | 27.21 |
| Percentage of females in key geographical locations (of all female employees in the Bank) | | | |
| Sri Lanka | | | |
| – Western Province (%) | 75.62 | 75.34 | 81.01 |
| – Outstations (%) | 24.38 | 24.66 | 18.99 |
| Bangladesh | | | |
| – Dhaka (%) | 76.54 | 81.40 | 75.86 |
| – Other locations (%) | 23.46 | 18.60 | 24.14 |
| Percentage of female exits (includes retirees) | 31.31 | 31.00 | 32.87 |

## Remuneration and job security: Generosity personified

Prioritising the continuity of remuneration and ensuring job security to its employees, the annual performance appraisals were conducted in 2022, and all increments and bonus entitlements as per the Bank's Pay-for-Performance policy were paid in full. In this way, all performance-based bonus entitlements for the year were rewarded. Furthermore, the Defined Contribution Pension Fund launched in 2020, in tandem with the Bank's 100th anniversary providing coverage for employees who are not covered by the pension fund, safeguards employees with future financial assurances.

A yearly average increment of 10% was attributed to each employee, to help offset inflation and to provide better means of coping with the high cost of living. The HR division of the Bank which operated with the motto of "Caring for its Employees" in 2022, hopes to capitalise on the theme "Believe in Commercial Bank" for 2023, building on the momentum of prudent confidence and solidarity that the Bank has always relied upon.

The banking ecosystem experienced a brain drain with nearly 150 employees migrating overseas to greener pastures in 2022. The Bank also absorbed 299 new employees during the year under review to fill the resulting vacancies. Talent upskilling and career development were two key pursuits supported by the Bank to equip employees with the required capabilities for their professional growth.

The Bank also continued to outsource services of Digital Assistants and call centre operations. Outbound excursions were also performed to improve the harmony of the many hierarchical and geographical branches of the banking operations, into a flourishing singular system.

Table – 21: **Retention rate (Maternity leave)**

| Number of Employees | 2022 | 2021 | 2020 |
|---|---|---|---|
| Availed leave during the year | 49 | 50 | 69 |
| Due to return during the year | 54 | 59 | 73 |
| Returned during the year | 54 | 59 | 73 |
| Returned during prior year | 59 | 73 | 64 |
| Still employed after 12 months | 56 | 70 | 61 |
| Return ratio % | 100 | 100 | 100 |
| Retained ratio % | 94.92 | 95.89 | 95.31 |

### Staff training: Learning curves

Training and Development continued to be a vital component of the Bank's Human Resource Development Philosophy. Based on its robust training and development strategy, the Bank focused on equipping its staff with up-to-date, relevant skillsets and necessary competencies to deliver increased value. Collaborating with the Digital Banking Unit, the Retail Products Division engaged in a cross-functional knowledge-sharing/skills development initiative to foster a digitally-aware culture that facilitates more effective product and feature development and deployment of such tech-based products. Regular staff training programmes were conducted to ensure accuracy, efficiency, and fluency in pawning transactions, to facilitate the overall valuation process.

The newly refurbished state-of-the-art auditorium was an addition to the Commercial Bank outfit, housed in the Union Place branch building, that caters to the modern requirements of being able to host a diverse range of events, such as product launches, competitions, staff training programmes, and cultural extravaganzas.

During the year, the Bank invested Rs. 65.375 Mn., on training and development and delivered on average 26 hours of training per employee.

Table – 22: **Training statistics**

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Total training cost (Rs. Mn.) | 65.375 | 22.955 | 15.183 | 54.695 | 47.119 |
| Total training hours | 151,448 | 79,928 | 43,961 | 142,950 | 130,754 |
| Total E-learning hours | 1,319 | 7,756 | 7,161 | 1,111 | 1,309 |
| Percentage of training through E-learning (%) | 0.87 | 9.70 | 14.01 | 0.77 | 0.99 |
| Total investments on virtual training (Rs. Mn.) | 14.435 | 16.958 | 3.455 | 0.315 | 0.333 |

## 4. Sustainable supply chain

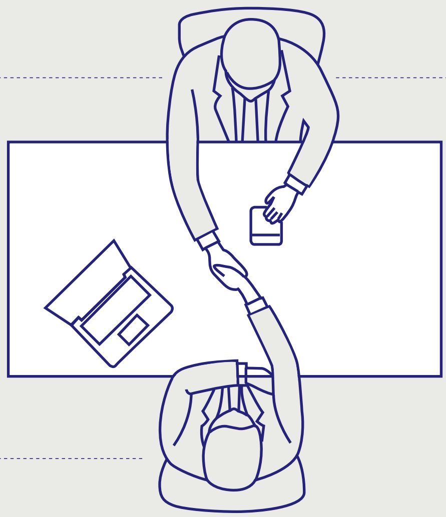
### Logistical Framework: Choreography of supplies

The Bank continued to expand its networks of business partners in 2022 to ensure smooth operations in a time of crisis. The trusted connectivity between Bank and suppliers provides technology platforms, market access, and necessary material and other services, to perpetuate supply chains that are at the heart of a Bank's operations. During 2022, the Bank engaged with over 1,500 business partners to efficiently and reliably manage the banking operations. An e-procurement system launched in 2020 to assist the dialogue between supplier and Bank during the extended pandemic time frame, continued to function as a critical supplier base to minimise reverberations of COVID-19-related impacts on banking operations and employee health.

The pandemic issued new challenges to the banking ecosystem such as shortages of fuel. An efficient fuel supply was a key factor mandatory in many areas of operation such as operating generators, cash transport, and loading of ATM machines, as well as implementing the "Bank on Wheels" service. The Bank always adhered to global best practices in the acquisition of supplies from trusted sources which was rewarded with an above par supply chain ensuring smooth continuity of operations. The supply chain logistics were also calibrated with adequate supply of consumables to each branch, with high usage branches stocked up with higher volumes of consumables. The essential stocks were replaced with minimum complacency to ensure the uninterrupted continuity of banking operations.

The procurements stayed true to uncompromised quality, with newer windows for digital products and novel back end tools. Information Technology was the single biggest investment of the Services Division amounting to over Rs. 1.2 Bn. The procurements in relation to hardware and software were made through the strong supplier business partner relationships nurtured over the years. Cost management was an essential and fundamental criterion in the astute governance of costs for trailblazing digital innovations.

Figure 18: **The Bank's business partners**



**Critical to operations**
- Utility services providers
- Software suppliers
- Material suppliers
- Travel and Transport

**Extend our reach**
- Correspondence banks
- Franchise partners
- Exchange houses
- FinTech companies

**Infrequent engagement**
- Premises providers
- Contractors
- Professional services providers

**Maintenance**
- Staff welfare
- Waste management
- Communication
- Human Resource providers
- Asset suppliers
- Debt collection agencies

A technical introduction to the practice of procurement was the slow infusion of artificial intelligence (AI) into the procurement process, for best placement of supply materials in the utility pipelines, to improve overall efficiency of the procurement exercises, bolster the underlying business intelligence, and to offset traditional procurement practices that can compromise the punctuality of supply chains.

# Community Sustainability – Outreach

The Bank is a stalwart financial institute that embarks on the stewardship of society and the environment through a multi-faceted approach to preserve the social and natural wealth of the ecosystem at its periphery.

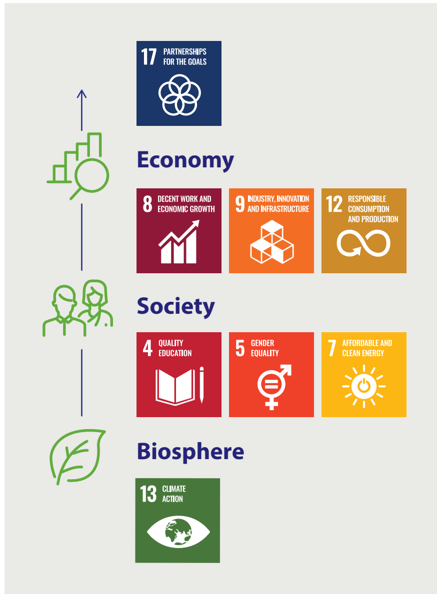
Based on its sustainability vision, the Bank has integrated sustainability into its operations, culture, and the value chain. This includes extending outreach into strong and sustained programmes moulded by an environmental conscience. The Bank upholds its Corporate Social Responsibility (CSR) values by extending its outreach to the most-needy communities at the grassroots level. It also leverages its environmental conscience to engage in the dualism of conservation with emissions management, refining a balance of the two, to proactively safeguard nature while downscaling emissions.

The Bank's sustainability initiatives are guided and monitored by a cross-functional Sustainability Steering Committee (SSC) comprising representation from key Sustainability-linked functional areas and include a comprehensive measurement mechanism. The partnerships forged over the years and the new collaborations with public, private, and non-governmental organisations both locally and internationally, continue to offer vital support in the achievement of the Bank's sustainability strategy.

The Bank's Corporate Social Responsibility Trust (CSR Trust) envisions a future where no one is left behind, and where the financial commitment of the Bank's outreach programs will uplift societies, especially the younger generations who are the leaders of tomorrow. The CSR applies the foundational strengths of outreach in five sustainable areas targeted to empower communities.

- Education
- Healthcare
- Environment
- Community, and
- Arts and Crafts

Through these initiatives, the Bank commits to engage in the following SDGs, while also embarking soon on Climate Action (SDG-13) as a safeguard measure against climate change.




## Building societies →

### Corporate Social Responsibility (CSR): Testaments in philanthropy

The Bank's CSR Trust mandate is unique in that it dictates that CSR should be undertaken in the spirit of empowering the nation's citizens to enable them to support Sri Lanka's socio-economic development objectives, rather than seeking any direct benefits to the Bank or a link to its business objectives. To achieve its stated objectives, the Trust identifies five broad areas to enable the Bank to meaningfully redirect its CSR activities. The Bank's CSR Trust serves all communities, religions, geographical locations, and races without discrimination.

Bank's well-planned approach to CSR initiatives:

- The Bank's CSR strategy is supported by the five-member CSR Trust
- A strong governance mechanism led by the Board of Trustees
- The commitment of the Bank's leadership to advance CSR initiatives
- All projects are managed by the administrative CSR Unit of the Bank
- Highly efficient project management process, including the rigorous evaluation and selection process with continuous monitoring of ongoing projects
- Volunteerism and ownership at the branch and department level
- Sustained high profitability combined with a triple bottom line approach in business

**Education**

- IT Education through donation of IT labs
- Providing digital classrooms to learn STEM education
- Promoting vocational training and online education

**Healthcare**

- Donating critical care equipment to government hospitals

**Environment**

- Environmental education
- Environmental conservation

**Other**

- Preserving culture and heritage
- Rehabilitation of water supply in rural areas

The Bank has garnered the following awards and accolades for its CSR initiatives in 2022:

- Ranked as "Market Leader" in Sri Lanka in Corporate Social Responsibility (CSR) under the Euromoney Market Leaders 2022 Accreditation Programme.
- The "Best Bank for Environmental and Social Governance (ESG)" at the latest international awards ceremony of the respected Asiamoney magazine published by Euromoney Institutional Investor PLC.
- The CSR Brand of the Year title presented by the Sri Lanka Institute of Marketing (SLIM) affirms the strategic alignment the Bank has achieved between its vision and mission, its CSR initiatives, and the country's development goals beyond the value and impact of the Bank's nationally-scaled efforts to elevate IT literacy levels in Sri Lanka.

**Education:** Empowering youth

**280**
IT labs established

**40,000**
Students benefitted (approx.)

**85**
Math labs launched

**140**
STEM classes established

**50,000**
Students benefitted

**Over 280**
Jobs provided

4 QUALITY EDUCATION
8 DECENT WORK AND ECONOMIC GROWTH

## The Bank established 27 "IT Labs" in 2022 increasing the total to 280, benefiting approximately 40,000 students

The Bank through its CSR Trust adopts a multi-faceted approach to implement meaningful projects under the Education pillar that account for the largest CSR spend. Since taking a strategic decision to adopt IT Education and digital literacy development among the youth as its flagship CSR initiative, the Bank has made significant progress in increasing its investment in IT education and nurturing a technologically savvy future generation. Continuing on the momentum of commissioning IT labs to rural schools which commenced in 2011, the Bank established 27 "IT Labs" in 2022 increasing the total to 280, benefiting approximately 40,000 students. This initiative has helped to retain students in rural schools and even prevented the closure of some schools that were struggling due to the lack of IT resources.

In 2017, the Bank embarked on developing IT literacy skills among youth through the creation of "smart learning environments", by investing in skill development initiatives and education infrastructure. These initiatives directly contribute to Sri Lanka's Sustainable Development Goals; specifically, Goal 4 (Quality Education), which is to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Additionally, the Bank strongly supports SDG 17 ("Partnership for the Goals") as it believes that partnerships help create greater impact and stronger outcomes.

### *SMART Schools*

The SMART School project is aimed at digitising the core subjects in the GCE Ordinary Level and Advanced Level grades, thereby creating a digital learning platform to enable secondary school students in rural areas to expand their knowledge and understanding of the core subjects in their school curricula.

To create the infrastructure required to transform the traditional secondary education classrooms into "Smart learning environments", the Bank entered into a Public-Private-Partnership with Headstart (Pvt) Ltd., Microsoft Sri Lanka, and Dialog Axiata PLC. One of the key initiatives of this project was the teacher training on use of "smart techniques" in teaching. Over 75,000 students from across nine districts benefitted out of the project. The Bank expanded and extended its initiative to popularising STEM education in the country by continuing the "Smart School" concept, where STEM Classrooms, Coding Clubs as well as Math Labs were established in schools.

## Math labs

*The Bank established 44 Math labs in 2022 raising the total to 85.*

### *STEM classrooms*

Representing the next big step in the Bank's investment in the Education pillar, the STEM classroom project was launched to coincide with the Bank's centennial celebrations in 2020. A long-term undertaking by the Bank, the traditional classrooms are transformed into STEM centres, using digital learning content developed for the *Sipnena* online education website giving the project its name: the "100 *Sipnena* Smart STEM Schools" initiative. The STEM classrooms focus on building content for the 4 STEM (Science, Technology, Engineering, and Mathematics) subjects, which are widely accepted as crucial prerequisites for higher education in numerous IT-related careers. Under this project, the Bank provides selected schools with a computer, a multimedia projector, along with the required furniture and access to digital content including interactive lessons, presentations, diagrams, and illustrated material, specifically developed to create an enhanced learning experience. A total of 43 "STEM Classrooms" were established in 2022, increasing the total to 140, benefiting approximately 50,000 students island-wide. Going forward, the project will be extended to students from Grades one to GCE Ordinary Level.

### *Coding Clubs Project*

The Coding project, which forms part of phase II of the STEM Classroom initiative was launched in July 2020. This is a collaborative effort between Commercial Bank, the STEMup Educational Foundation and IRIM Croatian Makers, Micro:bit Educational Foundation, Rotary Club Zagreb Centre, and several others. The project aims to bring to life the STEMup Foundation's mission - to inspire students to pursue STEM degrees and careers. The Bank has setup up computer coding clubs in 100 selected schools across the island to equip students with skills and knowledge in computer programming and encourage them to utilise their skills in creating innovative and functional applications. The Bank's involvement also includes providing funding for train-the-trainer programmes as well as necessary learning tools such as "Internet of Things" (IoT) kits and other required resources.

The Bank continued this initiative by further collaborating with STEMup Educational Foundation where a full day event was organised and carried out at Bank's Auditorium in line with "Computer Science Week – 2022". Over 340 students from around the country participated in this programme, together with their teachers and parents. During the day, the students practically participated in computer programming activities and sessions, while the teachers learnt about how to promote coding among students and the teaching techniques. The struggling parents got insights on how to guide children to start learning coding.

### *Math labs*

Launched in 2015 to develop the mathematical and analytical skills of school children, the Math Lab project is an ongoing initiative by the Bank. Over the past several years, the Bank has commissioned numerous math labs mainly in rural schools around Sri Lanka. This initiative has attracted young students from diverse age groups who are keen to acquire hands-on experience in interactive mathematical games, sharpen their knowledge of mathematical principles and learn important critical thinking skills. The Bank established 44 Math labs in 2022 raising the total to 85.


| Project | No in 2022 | Total as at end 2022 |
|---|---|---|
| IT Labs | 27 | 280 |
| Math Labs | 44 | 85 |
| STEM Classes | 43 | 140 |

### *CISCO Networking Academy – Commercial Bank Collaboration*

In 2020, the Bank in collaboration with the CISCO Networking Academy enabled approximately 500 students from government schools to follow basic IT courses of their choice on a virtual platform, free of charge. Whilst the Bank covers the lecture fee of the students, the CISCO Networking Academy provides the courses without any fee.

This collaboration aims to optimise the use of the IT labs donated by the Bank to enable students to pursue IT courses by connecting to the CISCO Networking Academy curriculum and obtain certifications upon successful completion. CISCO's certifications are in high demand in the IT industry. The Bank has trained more than 2000 students through this programme making them eligible to obtain highly-paid jobs.

### *Youth empowerment through vocational training*

Commercial Bank, collaborated with the Vocational Training Authority (VTA) to enable school leavers who have passed their 10th grade to obtain technical qualifications up to NVQ Stage III certification in various technical fields. The 120 Days Training' initiative has enabled to equip school dropouts with the necessary skills to thrive in the construction industry. Through this ongoing programme, Commercial Bank empowered over 200 youth to be gainfully employed.

The following VTA-enabled training facilities and programmes were conducted in 2022.

- The mobile repair course, was initiated in collaboration with Sipvin Vocational Training Institute enabling 10 underprivileged students to enhance their skills and earn a monthly income of Rs. 200,000 approximately, upon successful completion.
- Supported the Vocational Training Authority to enroll students from government schools and provide over 280 jobs in the construction industry to school dropouts.

### *Special loans scheme for postgraduate students*

Commercial Bank tied up with the University of Moratuwa (UoM) to become the first lending institution in the Country to offer a tailor-made loan scheme to support research candidates accepted into the University's research programmes. Under the scheme, the Bank provides education loans of up to Rs. 500,000 at a concessionary annual interest rate of 9.5%. The tenure for these loans will be six years, including a three-year grace period. The special loan scheme also offers fee waivers and affordable repayment structures that include an interest-only grace period, to enable students to focus on their research work with peace of mind. During the year under review 236 students availed of this facility.

### 2. Healthcare: Beyond prescriptions

In 2022, the Bank donated critical care equipment and infrastructure facilities worth Rs. 17.5 Mn. to eight government hospitals. The Bank had made similar donations to over 98 government hospitals, so far. The Bank made monetary donations to the National COVID-19 Healthcare and Social Security Fund set up by the Government of Sri Lanka to enhance the medical facilities of the island during the pandemic. Furthermore, essential medical equipment was donated for the treatment of COVID-19 patients to 25 state hospitals. In particular, two Autoclave machines that help in infection control in the operating theater were donated to the Point Pedro Base Hospital, in response to their request. Furthermore, the Bank contributed towards several community initiatives to provide access to safe water and sanitation as well.

### 3. Food security: Nurturing nourishing

The basic physiological needs of humans, namely food, drinking water, and sanitation when in short supply can reverberate into a host of unhealthy repercussions, of which poor nutrition holds a significant and apex position.

As cited in by the World Food Programme (WFP) in its Household Food Security Survey for November 2022, nearly 37% of Sri Lankan households are currently food insecure, and almost 72% are turning to food-based coping strategies including reducing the number of meals and limiting portion sizes. In this context, WFP invited a number of Sri Lankan banks to be a financial partner, for an outreach programme to prevent malnutrition and support families to access food in Sri Lanka. Following a competitive bidding process of the WFP, the Commercial Bank was selected to be the exclusive financial partner to distribute their funds among selected beneficiaries in Sri Lanka. The MOU of the agreement will be signed in 2023.

As a benefactor, partner, and patron of the partnership with the WFP, the Bank will bolster the grassroots level capacity of 76,500 households to reach their alimentation and nutritive needs.

### 4. Arts and crafts: Chiseling prosperity

The Bank continued its popular children's art competition "*Arunalu Siththam*" for the third year, extending an invitation to young Sri Lankans across the island to express themselves through their artistic talents.

Going forward, the Bank aims to widen charitable engagement in 2023, by funding traditional hand-made arts and crafts of SMEs (such as the mask industry in Ambalangoda).

### 5. Community development: The grassroots

The Bank continues to be a partner in social engagement to uplift communities worst affected by economic and climatic events in 2022. The Bank invested Rs. 1 Mn. to construct the Terrace at the Methseva Foundation, Rs. 1.2 Mn. to construct a water tank at Nimalawa Aranya and engaged in school projects investing Rs. 0.7 Mn. during the year under review.

The Bank aims to further broaden its community development outlook and engagement in 2023.


Environmental engagement is in the contemporary a paramount necessity to fight climate change. For many years Commercial Bank has continued to play a pivotal role in environmental advocacy, demonstrating how the local banking industry can contribute towards Sri Lanka's transition to a low carbon economy. Becoming the first carbon neutral Bank in Sri Lanka in 2020 is a clear testament to the effectiveness of its pioneering initiatives to significantly lower its carbon footprint as well as that of its customers and other stakeholders. The Bank has been awarded the Best Corporate Citizen Sustainability Award for 2021 by the Ceylon Chamber of Commerce for its carbon-neutral achievement.

Among the Bank's initiatives to safeguard of the environment includes a curative mangrove restoration project, funding activities associated with a conservation programme of pollution-threatened turtles, and a regeneration programme to regrow degraded forest land. The initiatives also include lending to support eco-friendly operations, migrating customers to paperless banking, and reducing consumption of non-renewable energy, water, and other resources in its operations.

**7,000**
Mangroves planted

**$1,200m^2$**
21 Islands covered

**62,500**
Seedlings planted in Kandegama

**50,000**
Sea turtles released


## 1. Environmental conscience

### Mangrove restoration project: Preservation of buffer zones

The Bank has strategically identified localities where the human footprint has had injurious outcomes on nature's health and well-being, and has renewed and empowered the balance of fauna, flora, and human settlements with a strong and improved sense of equilibrated harmony. A mangrove planting project was initiated in collaboration with Wildlife and Ocean Resource Conservation around Koggala lagoon to prevent the erosion of the land belonging to 21 islands located in the area. During 1st and 2nd Phases of the project, more than 450 barrels with 3,250 mangrove plants were planted to cover 550 meters in the Eastern part of the island. The third phase of the project was launched to extend mangrove coverage by a further 700 metres by replanting 3,750 mangrove plants on two islands in the Koggala Lake, including *Madol Duwa*, which rose to fame after Martin Wickramasinghe's celebrated novel.

### Turtle Conservation Project: Hatching fragile lives

Conservation of sea turtles (classified as an endangered species by IUCN) at Panama beach, was commenced by partnering with Wildlife and Ocean Resource Conservation. More than 50,000 turtles were released to the deep sea by utilising the natural methodology (*in situ* Conservation) since 2019. The Bank approved Rs. 5.5 Mn. for turtle conservation in 2022.

### Zero trash: Setting lofty standards

Vibhava Solution offers solutions in agriculture, reforestation, waste collection, training, and consultation for corporates to archive their desired environmental and social objectives in line with the SDGs. The proposal presented by the Bank is to deliver a training component for employees to ignite their passion for the environment and apply the gained knowledge to drive environmental sustainability, officially and personally, thereby acting as agents of change. The staff members were provided with a training module to enhance the capacity of employees across the hierarchy to understand the fundamentals of waste management, home gardening, and climate change, and their overarching importance. Also, the Bank aims to use this workshop as a foundation to facilitate planning, designing and implementing community-based climate adaptation and mitigation projects.

### Reforestation of degraded lands: Revitalising forests and habitats

100 hectares of degraded habitat belonging to the Kandegama forest in the Dimbulagala range of the Polonnaruwa District was reforested by the Bank under its latest environment-linked commitment.

The reforestation project funded by the Bank ensured the planting and maintenance of 62,500 seedlings of local species and extended to reducing the danger of forest fires by approximately 95% by removing invasive flora such as *Mana* and *Illuk* grass that hinder the growth of other plants and are susceptible to forest fires during the dry season. The removal of such species aids natural regeneration and controls cattle grazing.

Forests in the North-East area of the country have a catalytic effect on the North-East monsoon and the reforestation of Kandegama is expected to improve rainfall stability in the region in addition to paving the way for other environmental benefits including climate change mitigation, biodiversity conservation, and habitat improvement.

The Bank also continued the gardening project in the National Hospital by growing $CO_2$-absorbent trees to mitigate the air pollution prevalent in the Townhall area.


### 2. Managing the footprint: Curbing the emissions

The green arm of the Bank engages in preventative, regenerative, and restorative programmes to meet Sustainable Development Goals 7 and 12, namely "Affordable and Clean Energy" and "Responsible Consumption and Production", to ensure that best practices are pursued to transform the Bank's ecosystem into a green powerhouse ensuring that each green alternative is preventative or regenerative/restorative to ensure environmental sustainability.

#### Carbon neutral strategy of the Bank:

Banking has a minimal environmental footprint of its own as it consumes few natural resources and creates minimal emissions and waste. Nevertheless, the Bank continues to make a conscientious effort to reduce GHG emissions in its operations.
Its intention to achieve Carbon Neutral Status was declared to coincide with its centennial celebrations in the year 2020. Efforts since then have been driven by a broad-based Carbon Neutral Strategy to aggressively embed green principles into the Bank's day-to-day operational processes with the ultimate aim of lowering the Bank's carbon footprint. The Bank's Carbon Neutral Strategy complements the Bank's measures for energy management.

**Solar panels installed in**

**71**

**branches**

Some of the measures that the Bank has endeavoured to reduce emissions are as follows:

- Introducing LED lighting across the Bank's branch network
- Investing Rs. 251 Mn. to commission solar systems at 71 Commercial Bank branches
- Replacing outdated water-cooling systems at the Bank's City Office with a new VRF system
- Optimising air conditioning systems at the Bank's Head Office
- Introducing auto-timed switch off of over 5,000 servers and workstations across the Bank's branch network
- Replacing 10 CRT monitors with power-saving LCD monitors
- Installing Turbine Ventilation at two offsite ATM locations to replace conventional Air Conditioning
- Installing sensor lights at ATM locations

Among the more technologically savvy approaches is the "Flash" mobile application that can accurately measure the customer's environmental footprint and suggest ways to remediate the impact of the customer's banking activities by offsetting GHG emissions.

The Bank recently had the distinction of being featured to a global audience as one of 25 banks around the world that are working to promote environment consciousness among their customers. The occasion was the United Nations Climate Change Conference (COP 27) at which Doconomy AB, the Sweden-based Impact-Tech Solutions company that is a partner of Commercial Bank's Flash Digital Bank Account App, presented a map showing the geographical spread of the 25 banks that are collaborating with the company to help save the environment by using Doconomy's environmental impact index to calculate the carbon footprint of each transaction performed via their respective apps.

**Solar power generated as % of energy consumption**

2022

**4.38%** ↑

(2021–2.35%)

Table 23: **Energy consumption and GHG emissions**

| Year | | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|---|
| Energy consumption | Gigajoules | 38,416 | 42,906 | 45,045 | 50,296 | 49,958 |
| Reduction of energy consumption | Gigajoules | 4,490 | 2,139 | 5,251 | -338 | 4,862 |
| Direct (Scope 1) GHG emissions | $CO_2$ Tonnes | Pending | 1,203 | 1,079 | 1,282 | 1,369 |
| Energy indirect (Scope 2) GHG emissions | $CO_2$ Tonnes | Pending | 7,144 | 8,413 | 10,957 | 10,838 |
| Solar power generated | | 1,684 | 1,008 | 72 | 1,044 | 828 |
| Solar power generated as % of energy consumption | | 4.38 | 2.35 | 0.16 | 2.08 | 1.66 |

### Green Financing and Green Banking:

The Bank's Green Financing and Green Banking initiatives are detailed under Green Financing on page 82, managing our footprint on page 97 and on given below.

### Paperless operations

Having introduced digital tabling and viewing of Board and Board Committee Papers via the BoardPac System over a decade ago, Commercial Bank is widely regarded as one of the pioneers of paperless operations in the local banking sector. The Bank has since continued to make significant strides in its paperless initiatives, including measures introduced in 2022.

Some key highlights include:

- Implementation of an Electronic Loan Application procedure consisting of a workflow system to scan necessary customer documents for digital archiving
- Launching "e-Slips" mobile app to enable customers to deposit cash and cheques to their savings/current accounts without using paper slips
- Introducing receipt less ATM transactions
- Rolling out digital customer onboarding through the ComBank Digital portal, eliminating the need to fill up paper applications
- Automating the outward cheque clearing and transfer cheque handling processes to facilitate digital scanning of daily vouchers
- Introducing the e-Procurement System and Stationery Management System to eliminate current manual paper-based systems
- Introducing a digital workflow system for routing internal memos
- Replacing notice boards with LED panels
- Introducing the electronic staff loan application system
- Launching e-statements for the Bank's credit card holders
- Introduction of MCAS approval workflow

### Water management:

Commercial Bank's need for water is primarily to meet the utility and sanitation requirements of its staff members and customers. Hence the Bank's water footprint is minimal. Nevertheless, the Bank makes a conscious effort to control daily water usage. In this regard, dual flushing water closets have been installed at all of the Bank owned branch buildings, while a tube well provides water for flushing all toilets at the Head Office premises. In addition, the Bank's Wellawatte, Galle Fort, and Jaffna branches are equipped with rainwater harvesting systems.

## 3. Memberships: Nexuses in synergy

17 PARTNERSHIPS FOR THE GOALS

The Bank is a member of the following international and local alliances and affiliations that are rudimentary to being a consolidated force on the ground to curb GHG emissions and to promote green environmental measures, which are at the heart of sustainability, honoured by collective action.

1. Sustainability Banking Initiative of the Sri Lanka Banks' Association
2. United Nations Global Compact (UNGC)
3. Business and Biodiversity Platform of Sri Lanka.

# Financial review 2022

This financial review provides details of the Bank's financial performance of the year under review. It is meant to be read in conjunction with the Operating Context and Outlook on pages 46 to 51, which explains the broader global, local, and sector trends that contextualise the Bank's performance, and the Management Discussion and Analysis on pages 58 to 134, which analyses how the Bank grew its financial and other capitals in relation to its Sustainability Framework and the strategic imperatives on pages 52 to 57.

## Performance of the Group

### An overview

In a period of unprecedented macroeconomic variables, the Commercial Bank Group comprising of Sri Lanka's largest private sector bank, its subsidiaries and the associate, ended the year 2022 with a solid operational performance, having navigated the perfect storm with a series of forward-looking strategies. The Group saw its assets growing by Rs. 516.063 Bn., or 26.02% (2021 – 12.54%) to approach the Rs. 2.5 Tn., at end of 2022. The gross income of the Group recorded a growth of 71.31% (2021 – 7.70%) to reach Rs. 280.387 Bn., compared to Rs. 163.675 Bn. recorded in 2021, while total operating income and profit after tax of the Group for the year reached Rs. 136.637 Bn., (2021 – Rs. 93.598 Bn.) and Rs. 24.399 Bn., (2021 – Rs. 24.290 Bn.) respectively.

Given that the Bank accounted for 97.05% of the total assets (2021 – 98.27%) and 94.14% of the profit of the Group (2021 – 97.18%), the analysis below provides a detailed account of the Bank's financial performance, followed by a brief commentary on the performance of the Bank's operations in Bangladesh, other overseas operations, local subsidiaries and the associate as given on pages 108 to 111.

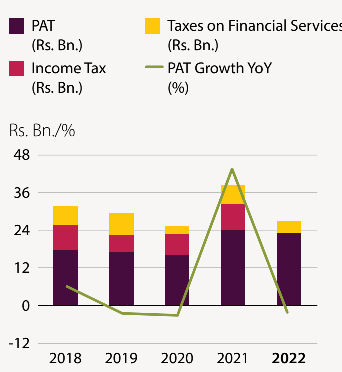
## Performance of the Bank

### An overview

Total assets of the Bank grew by Rs. 476.585 Bn., or 24.45% (2021 – 12.27%) during the year under review and stood at Rs. 2.426 Tn., as at December 31, 2022 (2021 – 1.949 Tn.). The growth in assets was almost fully funded by the growth in deposits of Rs. 471.266 Bn., or 32.66% (2021 – 13.99%), which reached Rs. 1.914 Tn., as at the year-end (2021 – Rs. 1.443 Tn.). Lending portfolio net of provision for impairment grew by Rs. 115.824 Bn., or 11.42% (2021 – 13.13%) during the year and stood at Rs. 1.130 Tn., at the year end (2021 – Rs. 1.015 Tn.).

The profit after tax of the Bank for the year 2022 amounted to Rs. 22.970 Bn., compared to Rs. 23.606 Bn., reported in 2021 and recorded a marginal decrease of 2.70%. (2021 – growth of 44.17%). This can be considered extremely satisfactory given the unprecedented macroeconomic volatilities that prevailed throughout the year under review during which the Bank had to make the impairment charges in a single year in its history. Total operating income for the year recorded a significant increase of 45.40% and stood at Rs. 132.888 Bn., compared to Rs. 91.395 Bn. reported in 2021 (2021 – 21.96%). This helped the Bank to mitigate the impact of the impairment charges and other losses made in 2022 of Rs. 71.462 Bn., compared to Rs. 24.692 Bn., made in 2021 which reflected a record increase of 189.41% (2021 – 14.94%) facilitating the Bank to report an operating profit before taxes of Rs. 26.491 Bn., for 2022 compared to Rs. 37.810 Bn., recorded in 2021 which reflected a negative growth of 29.94% (2021 – growth of 34.96%).

Graph – 17: **Profit growth**




The lacklustre performance witnessed in both the ASPI and S&P SL20 indices of the Colombo Stock Exchange (CSE) during the year 2022 further hampered volumes of shares traded and the share prices of the banking sector due to the perceived elevated risks associated with the banking sector arising from the unprecedented operating environment. However, the price to book value and the market capitalisation of the Bank's shares remained the highest among peers in the Banking sector. The Bank's market capitalisation ranked twelfth among all listed companies on the Colombo Stock Exchange as at December 31, 2022.

With due consideration to the performance of the Bank during the year, the dividend policy and the Bank's commitment to pay a reasonable dividend to the shareholders, the Board of Directors has recommended a first and final scrip dividend of Rs. 4.50 per share for the year 2022 (2021: Rs. 7.50 per share, which comprised of a cash dividend of Rs. 4.50 per share and a scrip dividend of Rs. 3.00 per share).

## Income Statement

### Financial intermediation

Gross income grew by 71.20% (2021 – 7.46%) to Rs. 275.444 Bn., for the year from Rs. 160.886 Bn., reported in 2021, primarily due to the noteworthy contributions made by the three main sources of gross income, being income from fund-based operations, income from fee-based operations and income from other sources as explained in the following section. As the growth in gross income for the year is higher than the growth in average assets for the year of 18.71% (2021 – 17.99%), the financial intermediation margin (gross income/average total assets) improved to 12.59% as at end of 2022 (2021 – 8.73%), with an appreciable improvement of 386 bps. The financial intermediation margin for the banking sector for the year was 12.03% (2021 – 8.53%).

### Fund-based operations

Interest income, which accounted for 79.26% (2021 – 81.08%) of the gross income of Rs. 275.444 Bn., increased to Rs. 218.327 Bn., during the year from Rs. 130.443 Bn., in 2021, recording a significant improvement of 67.37% (2021 – 6.63%). This was mainly attributable to the growth in both the average interest-earning assets by Rs. 238.630 Bn., and the increase in average rate of interest on interest earning assets by 3.59%. Firstly, the average interest-earning assets grew due to the sharp depreciation of the Sri Lankan Rupee against the US Dollar from Rs. 200 to Rs. 367 during the year, boosting the Rupee equivalent of the foreign currency denominated assets. Secondly, the average rate of interest on interest earning assets improved due to the increase in income from foreign currency denominated assets due to the depreciation of Sri Lankan Rupee as explained above and the sharp increase in market interest rates consequent to the significant increase in policy rates by the CBSL in early part of 2022. Consequently, the excess liquidity that arose from the growth in deposits over the growth in loans and advances, was invested in government securities during the year 2022. As a result, interest income earned from sources other than loans and advances, accounted for 34.46% (2021 – 39.38%) of total interest income, an increase of 46.47% compared to 2021 (2021 – 40.54%). In the meantime, interest income from loans and advances increased by 80.95% in 2022 (2021 – negative growth of 7.82%) owing to the sharp increase in market interest rates that prevailed during the most part of the year and also due to the impact of depreciation of the Sri Lankan Rupee.

Interest expenses, which accounted for 62.56% of the interest income (2021 – 50.47%), more than doubled to Rs. 136.583 Bn., during the year from Rs. 65.832 Bn., reported in 2021, recording a mammoth growth of 107.47% (2021 – negative growth of 9.52%). This was mainly due to growth in average interest-bearing liabilities by Rs. 259.741Bn., and also due to the sharp increase in the average cost of funds by 2.95% consequent to the repricing of liabilities in keeping with the market interest rates which eventually resulted in a shift of funds from low-cost to high-cost funds. The increase in interest payments on deposits and borrowed funds denominated in foreign currency consequent to the depreciation of Sri Lankan Rupee too contributed for the increase in cost of funds. Although the CASA ratio of the Bank, which is considered as the industry benchmark reduced to 38.36% from 47.83% as at end 2021 stood very much above the industry average of 33.13%.

Consequently, net interest income of the Bank improved to Rs. 81.744 Bn., from Rs. 64.611 Bn., reported in 2021, recording a notable growth of 26.52% (2021 – 30.34%), accounting for 61.51% of the total operating income (2021 – 70.69%) and as a result the net interest margin of the Bank improving by 23bps to 3.74% in 2022 compared to 3.51% reported in 2021.

## Fee-based operations

Fee and commission income amounted to Rs. 25.464 Bn., compared to Rs. 15.410 Bn. reported in 2021, recording a growth of 65.24% (2021 – 36.76%) mainly due to an increase in income from trade and remittance businesses and credit and debit cards related services during the year.

Fee and commission expenses, which relate mostly to credit and debit cards related services increased to Rs. 5.973 Bn., from Rs. 3.659 Bn., reported in 2021, recording an increase of 63.24% (2021 – 81.84%). The sharp depreciation of the Rupee against the US Dollar during 2022 too contributed for increases in both the commission income received in foreign currency and the fees paid in foreign currency mostly related to cards increased sharply due to the same reason. Consequently, net fee and commission income increased to Rs. 19.491 Bn., compared to Rs. 11.751 Bn., reported in 2021, recording a growth of 65.86% (2021 – 26.95%), and it accounted for 14.67% of the total operating income (2021 –12.86%).

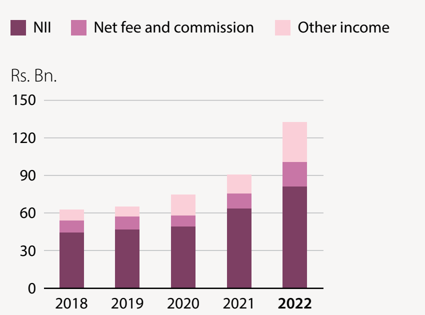
## Other income

Total other income of the Bank, comprising of net gains or losses from trading, net gains or losses from derecognition of financial assets and net other operating income more than doubled by 110.57% to Rs. 31.653 Bn., for the year compared to Rs. 15.032 Bn. reported in 2021 (2021 – negative growth of 6.70%). The main contributory factor for this increase was the substantial exchange gains earned by the Bank due to the sharp depreciation of the Sri Lankan Rupee against the US Dollar during 2022 and the gains recorded from swaps/forward transactions done.

## Total operating income

Consequent to the notable improvements in net interest income, net fee and commission income, and in other income, total operating income of the Bank grew to Rs. 132.888 Bn., by Rs. 41.494 Bn., or 45.40% compared to Rs. 91.395 Bn., reported in 2021 (2021 – 21.96%).

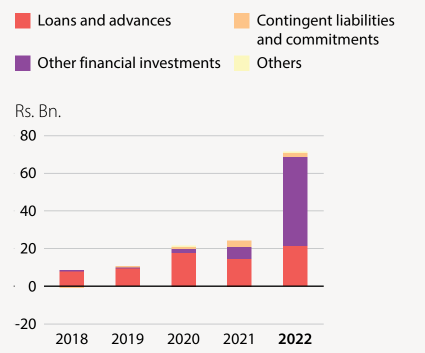
Graph – 18 **Total operating income**




## Impairment charges

Impairment charges and other losses for the year increased to Rs. 71.462 Bn., by 189.41% (2021 – 14.94%) from Rs. 24.692 Bn. reported in 2021, recording the highest provision the Bank has ever made for a single year in its history. This was mainly due to the Bank providing Rs. 47.134 Bn. (2021 – Rs. 6.893 Bn.) on account of foreign currency denominated securities issued by the Government of Sri Lanka consequent to the downgrading of the sovereign rating and Rs. 24.150 Bn., for loans and advances portfolio (2021 – Rs. 17.791 Bn.) under individual and collective impairment provisions and by way of management overlays to account for potential losses which the impairment models may not be capturing due to the high level of uncertainty and volatility that prevailed throughout the year.

Graph – 19: **Impairment charges**




## Net operating income

The robust growth in total operating income by Rs. 41.494 Bn., was not adequate to off-set the unprecedented increase in impairment charges and other losses of Rs. 71.462 Bn., resulting in the net operating income reducing by Rs. 5.275 Bn., or 7.91% to Rs. 61.427 Bn., for the year (2021 – a growth of 24.78%) compared to Rs. 66.702 Bn., reported in 2021.

## Operating expenses

Total operating expenses for the year amounted to Rs. 34.936 Bn., compared to Rs. 28.892 Bn. reported in 2021 and recorded an increase of Rs. 6.044 Bn., or 20.92% (2021 – 13.57%). This was mainly as a result of the increase in personnel expenses by 17.10% (2021 – 12.07%) to Rs. 19.113 Bn., from Rs. 16.321 Bn., for 2021, due to the salary increases granted and increases in other staff related expenses. In addition, other operating expenses for the year too increased by 30.54% (2021 – 19.08%) to Rs. 12.260 Bn., from Rs. 9.392 Bn., for 2021, due to price hikes in relation to almost all expense categories, increase in foreign currency related payments for the maintenance of assets consequent to the sharp depreciation of the Sri Lankan Rupee against the US Dollar and an increase in the VAT rate twice during the year from 8% to 15%.

However, consequent to the efforts taken to contain the operating expenses despite the inflationary pressures, the Bank's Cost to Income ratio (excluding taxes on financial services) for the year 2022 improved to 26.29% from 31.61% in 2021.

### Profit before and after taxes

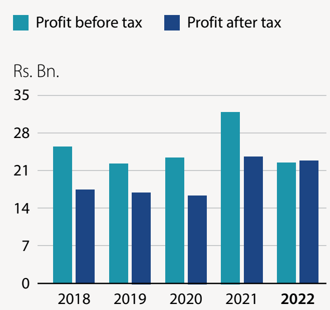
The increase in impairment charges and other losses by 189.41% and the increase in total operating expenses by 20.92% resulted in operating profit before taxes on financial services reducing to Rs. 26.490 Bn., compared to Rs. 37.810 Bn., recorded in 2021 by Rs. 11.320 Bn., or 29.94% (2021 – growth of 34.96%).

In line with the decrease in operating profit, the taxes on financial services for the year reduced to Rs. 3.892 Bn., compared to Rs. 5.809 Bn., for 2021 and recorded a decrease of Rs. 1.917 Bn., or 33.00% (2021 – an increase of 28.94%). Consequently, the Bank's Cost to Income ratio (including taxes on financial services) for the year 2022 improved to 29.22% from 37.97% in 2021.

The profit before income tax expense for the year decreased to Rs. 22.598 Bn., compared to Rs. 32.001 Bn., reported in 2021 and recorded a reduction of Rs. 9.403 Bn., or 29.38% (2021 – an increase of 36.11%). Income tax charge for the year reflected a reversal of Rs. 0.371 Bn., compared to a tax charge of Rs. 8.395 Bn., for 2021, and this reflected a decrease of Rs. 8.767 Bn., 104.42% in YoY tax charge (2021 – an increase of 17.62%). The reversal in income tax charge was primarily due to an increase in the deferred tax assets consequent to the change in the income tax rate to 30% effective from July 01, 2022, from the previous income tax rate of 24% where the effect of the overall reversal in deferred tax was more than the current tax liability which was computed at two different income tax rates, the first being at 24% on the taxable income for the first half of the year and second being at 30% on the taxable income of the second half for the Sri Lankan Operation of the Bank. The tax provision for the Bank's Bangladesh Operation has been computed at 40% for the full year.

Consequently, the profit after tax for the year recorded a negative growth of 2.70% (2021 – a positive growth 44.17%) and stood at Rs. 22.970 Bn., compared to Rs. 23.606 Bn. reported for 2021.

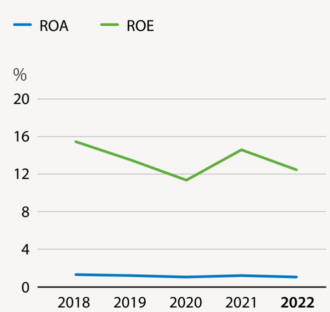
Graph – 20: **Profit before and after tax**




### Profitability

Reflecting the negative growth in profit after tax and the higher growth in total assets and equity during the year, both Return on Assets (ROA) and Return on Equity (ROE) reduced to 1.05% (2021 – 1.28%) and 12.46% (2021 – 14.66%) respectively. ROA (before tax) for the year too reduced to 1.03% (2021 – 1.74%).

Graph – 21: **ROA and ROE**




### Other Comprehensive Income (OCI)

Other comprehensive income of the Bank reported an income of Rs. 26.215 Bn., during the year as against an expense of Rs. 10.705 Bn., reported for 2021, primarily due to a net reversal in the fair value losses o/a reclassification of debt instruments from Fair Value Through Other Comprehensive Income (FVOCI) to Amortised Cost (AC), amounting to Rs. 12.292 Bn., (2021 – Nil). The Bank reclassified bulk of its Treasury Bond Portfolio amounting to Rs. 197.08 Bn., majority of the Sri Lanka Development Bond (SLDB) portfolio amounting to Rs. 55.85 Bn., (USD 152.19 Mn.) and entire Sri Lanka Sovereign Bond (SLSB) portfolio amounting to Rs. 39.87 Bn., (USD 108.63 Mn.) from FVOCI category to AC category, with effect from April 01, 2022, in line with the guidelines issued by the CA Sri Lanka in the form of a Statement of Alternative Treatment (SoAT) on "Reclassification of Debt Portfolio due to unprecedented changes in the macro-economic conditions". The above mentioned Rs. 12.292 Bn., consists of the cumulative losses that the Bank recognised (net of tax) in the equity through OCI prior to the aforesaid reclassification. The loss reported in the OCI of the Bank during the year 2021 was primarily due to net losses that arose on investments in financial assets at FVOCI, amounting to Rs. 12.599 Bn. In addition, there was a gain of Rs. 14.877 Bn. (2021 – Rs. 1.153 Bn.) on translation of financial statements of foreign operation of the Bank.

Accordingly, the total comprehensive income of the Bank for the year 2022 increased to Rs. 49.185 Bn., compared to Rs. 12.901 Bn., reported in 2021, reflecting a growth of 281.24% (2021 – a negative growth of 27.44%).

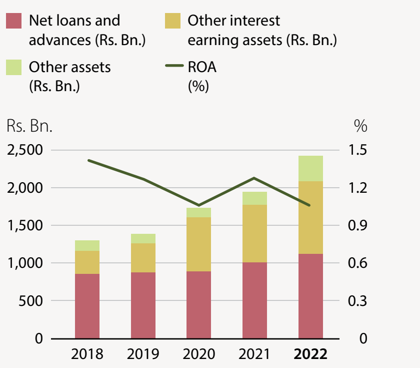
### Statement of Financial Position

The Bank is the first private sector bank in the country to cross the Rs. 1 Tn. in total assets (in 2016), deposits (in 2019) and loans and advances (in 2021).

### Assets

Total assets of the Bank grew by a noteworthy 24.45% (2021 – 12.27%) during the year to reach Rs. 2.426 Tn., from Rs. 1.949 Tn., at the end of the previous year. This growth is well in excess of the industry growth of 14.12% (2021 – 12.46%). This was largely due to the upward revaluation effect of the assets and liabilities of the Bank which are denominated in foreign currency due to the sharp depreciation of the Rupee against the US dollar during the first half of the year and also due to the increase in investments in Government Securities due to the excess liquidity created consequent to the growth in deposits being higher than the growth in loans and advances.

Graph – 22: **Composition of total assets**




### Loans and advances to customers

Reversing the trend observed in the first half of 2022, credit to the private sector increased during the latter part of the year despite the adverse macro-economic environment that prevailed in the country. The gross loans and advances portfolio as at December 31, 2022 stood at Rs. 1.220 Tn., compared to Rs. 1.079 Tn., a year ago and the net loans and advances as at December 31, 2022 stood at Rs. 1.130 Tn., compared to Rs. 1.015 Tn., as at end 2021, recording a growth of 11.42% (2021 – 13.13%), and it accounted for 46.60% (2021 – 52.05%) of total assets as at December 31, 2022.

The Bank continued to extend concessions and accommodate moratorium requests of the borrowers affected by both the Easter Sunday attack and the COVID-19 pandemic during the year 2022 as well. The loans and advances portfolio under active moratoria increased from Rs. 50.877 Bn., as at December 31, 2021 to Rs. 86.294 Bn., by end 2022 despite certain sectors coming out of the forbearance measures. We continued to engage with these customers and accommodated reschedulements/alternative action plans to help them.

### Asset quality

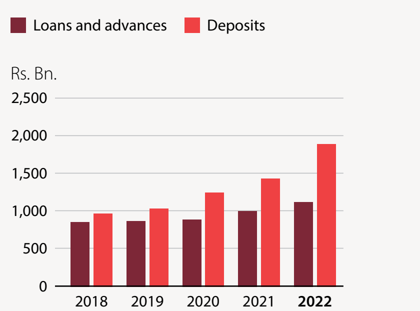
Quality of the loans and advances portfolio is a key determinant of the sustainability of the Bank's operations. The conservative risk profile, with a moderate risk appetite and a robust risk management framework, helped the Bank to end the year with both the Net Impaired Loans (Stage 3) to Total Loans and Advances Ratio and Impaired Loans (Stage 3) to Total Loans and Advances Ratio (excluding undrawn commitment) at 5.25% (2021 – 4.08%) and 9.41% (2021 – 7.33%), respectively, compared to industry averages of 10.82% and 10.94%, respectively. Despite there being a deterioration in both the above ratios in 2022 in view of the unprecedented macro-economic conditions prevailing in the country, both the above ratios can be considered acceptable compared to the industry averages.

In addition, both the impairment (Stage 3) to Stage 3 Loans Ratio (Stage 3 Impairment Coverage Ratio) and the cumulative impairment provisions for loans and advances as a percentage of the total loans and advances portfolio (Total Impairment Coverage Ratio) stood at 40.42% (2021 – 44.34%) and 7.32% (2021 – 5.94%) respectively, by end of 2022, compared to industry averages of 43.59% and 7.26%, respectively. The Bank continued to re-evaluate the stage assessment criteria for loans and advances to reflect the actual risks associated with customers.

The open credit exposure ratio (which is the net exposure on Stage 3 loans as a percentage of regulatory capital) stood at 34.41% at end of 2022 (2021 – 25.33%).

The loans to customers portfolio of the Bank is fairly well diversified across a wide range of industry sectors with no significant exposure to any particular sector. Please see page 298 for the details.

Graph – 23: **Deposits and advances**




### Deposits

With the solid domestic franchise in Sri Lanka, customer deposits continued to be the single biggest source of funding for the Bank, accounting for 78.92% (2021 – 74.03%) of the total assets as at December 31, 2022. Deposits grew by 32.66% (2021 – 13.99%) to Rs. 1.914 Tn. as at December 31, 2022, partly due to the effect of the depreciation of the Rupee against the US Dollar. The growth in deposits during the year was Rs. 471.266 Bn., while the CASA ratio reduced to 38.36% (2021 – 47.83%) as at December 31, 2022, which is still considered as the best ratio compared to industry average of 33.13%.

### Other liabilities

The significant increase in deposit liabilities when compared to the lower growth in loans and advances meant that the Bank had excess liquidity during most part of the year. This helped the Bank to reduce its external borrowings during the year enabling it to reduce its interest expenses and improve its net interest income and the interest margins as explained earlier. The total other liabilities as at the year-end reduced to Rs. 307.740 Bn., from Rs. 341.226 Bn., at end of 2021. During the year, the Bank raised Rs. 10.000 Bn. through an issue of BASEL III compliant debentures while there were no debentures that matured during the year.

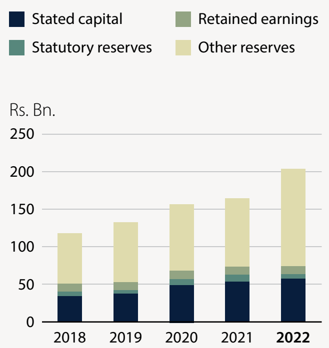
### Capital

The Bank is guided by its ICAAP, Capital Augmentation Plan and the Board approved dividend policy in maintaining capital commensurate with its current and projected business volumes. Accordingly, with the profit for the year, other comprehensive income for the year and the prudent dividend policy helped the Bank to grow its equity capital by a solid 23.53% (2021 – 4.93%) to Rs. 203.699 Bn., as at December 31, 2022 from Rs. 164.894 Bn., as at December 31, 2021. With an on-balance sheet multiplier (gearing ratio) of 11.91 times (2021 – 11.82 times), equity funded 8.40% (2021 – 8.46%) of the total assets as at the current year end, compared to the industry average of 12.78 times. The Bank ploughed back Rs. 18.353 Bn., out of profit for the year in 2021 after the payment of cash dividends.

The risk weighted assets of the Bank grew by 22.10% (2021 – 8.95%) to Rs. 1.355 Tn., as at December 31, 2022, from Rs. 1.110 Tn., as at end of 2021. Consequently, both the Tier 1 and the total capital ratios stood at 11.389% (2021 – 11.923%) (minimum requirement – 10.000% for 2022) and 14.657% (2021 – 15.650%) (minimum requirement – 14.000% for 2022) respectively, as at December 31, 2022, which are in excess of the higher capital adequacy requirement imposed on the Bank under the Basel III requirements as a Domestic Systemically Important Bank (D-SIB). The equity multiplier in terms of risk weighted assets to regulatory total capital increased to 6.82 times from 6.39 times a year ago.

As per the CBSL Basel III regulations, the Bank is one of the highest graded D-SIB, showcasing the Bank's importance to the Sri Lankan economy.

Graph – 24: **Shareholders' funds**




## Liquidity

The growth in deposits continued to outpace the growth in loans and advances during the current year as well, causing the Bank to invest the excess liquidity in Government securities. Nevertheless, at a time of unprecedented volatility such as what we currently experience, excess liquidity provides a high level of comfort to the Bank and also, enables the Bank to benefit from the upturn envisaged in credit demand in the years ahead. Given its importance, review of liquidity is a permanent item of the agenda in the fortnightly ALCO meetings of the Bank. The consolidated liquid assets ratio of the Sri Lankan operations of the Bank stood at 35.88% compared to the statutory minimum requirement of 20%.

The consolidated liquid assets ratio of the Sri Lankan operations of the Bank stood at 35.88% compare to the statutory minimum requirement of 20%. Liquid assets ratios of the Domestic Banking Unit (DBU) and the Off-shore Banking Centre (OBC) as at end of 2022, were 35.01% (2021 – 38.73%) and 32.37% (2021 – 36.39%) respectively. Gross loans to deposits ratio was 63.71% (2021 – 74.75%). Available stable funding based on definitions prescribed by the CBSL stood at Rs. 1.767 Tn., as at December 31, 2022 (2021 – Rs. 1.447 Tn.), leading to a Net Stable Funding Ratio (NSFR) of 173.58% (2021 – 157.47%), comfortably above the statutory minimum of 90% for the year 2022 (2021 – 100%). Demonstrating the availability of unencumbered high-quality liquid assets at the disposal of the Bank, the Liquidity Coverage Ratio (all currency) and the Liquidity Coverage Ratio (Rupee) stood at 293.91% (2021 – 242.52%) and at 405.91% (2021 – 425.97%) respectively, as at December 31, 2022 as against the statutory minimum of 90% for both ratios for the year 2022 (2021 – 100%).

## Segmental performance

The contribution from the Personal Banking Division to the profit before tax of the Group significantly increased mainly due to the increase in net interest income and net fee and commission income, while the contribution to the profit before tax of the Group from the Corporate Banking Division too increased in 2022, mainly due to the increase in net interest income and net fee and commission income despite a substantial increase in impairment charges and other losses. Further, the contribution from the International Operations to the profit before tax of the Group too increased by almost three times during 2022. In the meantime, the Bank's Treasury division recorded a substantial loss for the year 2022, mainly due to additional impairment provisions o/a USD denominated Government Securities consequent to the downgrading of the sovereign rating of the country.

A comprehensive analysis on segmental performance is given on pages 106 and 107.

The growth in deposits continued to outpace the growth in loans and advances during the current year as well, causing the Bank to invest the excess liquidity in Government securities. Nevertheless, at a time of unprecedented volatility such as what we currently experience, excess liquidity provides a high level of comfort to the Bank and also, enables the Bank to benefit from the upturn envisaged in credit demand in the years ahead.

The interim financial performance and the financial position of the Group and the Bank for 2021 and 2022 are given on pages 112 to 117 while the Bank's performance in terms of key indicators over the past ten year period is given in the section on "Decade at a Glance" pages 118 to 121.

Table – 24: **Core Financial Soundness Indicators (FSIs)**

Financial Soundness Indicators given below provide insights into the financial health and stability of the Bank.

| Financial soundness indicator (%) | **2022** | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Capital Adequacy (under Basel III)** | | | | | |
| Common Equity Tier 1 ratio (Current minimum requirement – 8.5%) | 11.39 | 11.92 | 13.22 | 12.30 | 11.34 |
| Tier 1 capital ratio (Current minimum requirement – 10%) | 11.39 | 11.92 | 13.22 | 12.30 | 11.34 |
| Total capital ratio (Current minimum requirement – 14%) | 14.66 | 15.65 | 16.82 | 16.15 | 15.60 |
| Non-performing loans (net of interest in suspense and specific provisions) to equity | N/A | 9.26 | 12.96 | 20.48 | 12.71 |
| Non-performing credit facilities (NPCF) [net of impairment] to equity | 33.56 | 26.69 | N/A | N/A | N/A |
| **Asset quality:** | | | | | |
| Gross NPL ratio (Based on regulatory provisions effective until December 31, 2021) | N/A | 4.62 | 5.11 | 4.95 | 3.24 |
| Net NPL ratio (Based on existing regulatory provisions effective until December 31, 2021) | N/A | 1.44 | 2.18 | 3.00 | 1.71 |
| Impaired loans (Stage 3) ratio (Based on existing regulatory provisions which includes undrawn commitments) | 5.25 | 3.85 | 6.78 | N/A | N/A |
| Impairment (Stage 3) to Stage 3 Loans Ratio (Based on existing regulatory provisions which includes undrawn commitments) | 39.60 | 42.76 | 30.87 | N/A | N/A |
| Total regulatory provisions ratio on gross loans and receivables (Based on regulatory provisions effective until December 31, 2021) | N/A | 3.52 | 3.32 | 2.37 | 1.97 |
| Specific provision coverage ratio (Based on regulatory provisions effective until December 31, 2021) | N/A | 68.93 | 57.42 | 39.39 | 47.21 |
| Provision coverage ratio (Based on SLFRS provisions) | 7.32 | 5.94 | 5.38 | 3.89 | 3.27 |
| Cost of risk of loans and advances | 1.80 | 1.35 | 1.88 | 1.09 | 0.91 |
| Open credit exposure ratio (Net exposure on NPCF as a % regulatory capital) | N/A | 8.79 | 11.88 | 17.37 | 10.21 |
| Open credit exposure ratio (Net exposure on NPCF as a % regulatory capital) | 34.41 | 25.33 | N/A | N/A | N/A |
| **Earnings and profitability:** | | | | | |
| Net interest income to total operating income | 61.51 | 70.69 | 66.15 | 71.51 | 70.56 |
| Net fee and commission income to total operating income | 14.67 | 12.86 | 12.35 | 15.59 | 15.95 |
| Other income to total operating income | 23.82 | 16.45 | 21.50 | 12.91 | 13.50 |
| Operating expenses to gross income | 12.68 | 17.96 | 16.99 | 17.10 | 17.00 |
| Impairment charge to total operating income | 53.78 | 27.02 | 28.67 | 16.76 | 13.46 |
| Cost to income ratio (including taxes on financial services) | 29.22 | 37.97 | 39.96 | 49.41 | 46.35 |
| Cost to income ratio (excluding taxes on financial services) | 26.29 | 31.61 | 33.95 | 38.51 | 36.85 |
| Financial intermediation margin (Gross income to average assets) | 12.59 | 8.73 | 9.59 | 11.05 | 11.28 |
| Interest margin (Net interest income to average assets) | 3.74 | 3.51 | 3.17 | 3.51 | 3.67 |
| Return on assets (ROA) – before income tax | 1.03 | 1.74 | 1.51 | 1.66 | 2.09 |
| Return on assets (ROA) – after income tax | 1.05 | 1.28 | 1.05 | 1.27 | 1.43 |
| Return on equity (ROE) | 12.46 | 14.66 | 11.28 | 13.54 | 15.56 |
| **Liquidity:** | | | | | |
| Statutory liquid assets ratio (Domestic Banking Unit) – (Current minimum requirement – 20%) | 35.01 | 38.73 | 44.99 | 30.42 | 24.47 |
| Statutory liquid assets ratio (Offshore Banking Unit) – (Current minimum requirement – 20%) | 32.37 | 36.39 | 32.70 | 25.25 | 30.20 |
| Liquidity Coverage Ratio (LCR) – Rupee – (Current minimum requirement – 90%) | 405.91 | 425.97 | 599.38 | 158.79 | 236.20 |
| Liquidity Coverage Ratio (LCR) – All currency – (Current minimum requirement – 90%) | 293.91 | 242.52 | 422.86 | 224.74 | 238.69 |
| Net Stable Funding Ratio (NSFR) – (Current minimum requirement – 90%) | 173.58 | 157.47 | 157.49 | 137.05 | 139.18 |
| CASA ratio (Current and Saving deposits as a % of total deposits) | 38.36 | 47.83 | 42.72 | 37.10 | 37.55 |
| Gross Loans and receivables to deposits ratio | 63.71 | 74.75 | 74.87 | 87.39 | 90.56 |
| **Assets and funding structure:** | | | | | |
| Deposits to gross loans and receivables | 156.96 | 133.78 | 133.56 | 114.43 | 110.43 |
| Deposits to total assets | 78.92 | 74.03 | 72.92 | 75.92 | 75.42 |
| Borrowings to total assets | 3.20 | 3.64 | 5.35 | 4.41 | 4.86 |
| Equity to total assets | 8.40 | 8.46 | 9.05 | 9.60 | 9.08 |

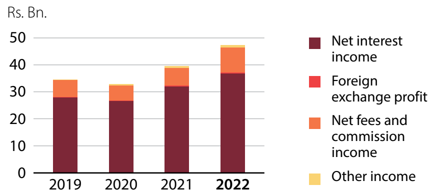
## Segmental analysis

### Personal Banking

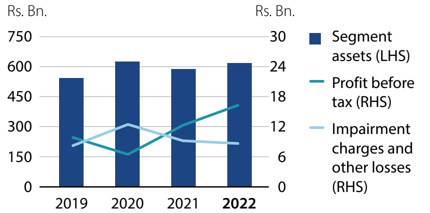
- Highest contributor of the Group in terms of net interest income and net fee and commission income.
- Total operating income increased by 19.43% to Rs. 47.316 Bn. contributing almost 35% to the Group.
- Profit before tax increased by 32.80% to Rs. 16.427 Bn.
- Accounted for approximately one fourth of the assets of the Group as at end of 2022.

| Rs. Bn. | 2022 | 2021 | Change | Change as a % |
|---|---|---|---|---|
| Net interest income | 36.988 | 32.271 | 4.717 | 14.62 |
| Foreign exchange profit | 0.385 | 0.223 | 0.162 | 72.65 |
| Net fee and commission income | 9.214 | 6.469 | 2.745 | 42.43 |
| Other income | 0.729 | 0.655 | 0.074 | 11.30 |
| Total operating income | 47.316 | 39.618 | 7.698 | 19.43 |
| Impairment charges and other losses | (8.602) | (9.209) | 0.607 | -6.59 |
| Net operating income | 38.714 | 30.409 | 8.305 | 27.31 |
| Profit before tax | 16.427 | 12.370 | 4.057 | 32.80 |
| Segment assets | 620.050 | 589.421 | 30.629 | 5.20 |

Graph – 25: **Total operating income**




Graph – 26: **Assets vs profit before tax vs impairment charges**

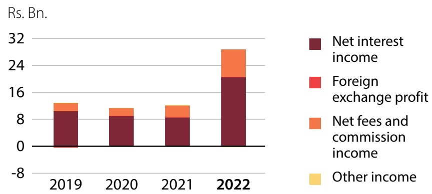



### Corporate Banking

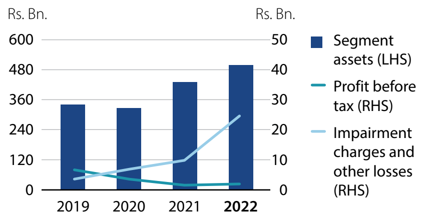
- Significant Increase was recorded in net interest income and net fee and commission income by 139.23% and 132.51%, respectively.
- Impairment charges and other losses increased by 168.42% to Rs. 24.928 Bn.
- A growth of 135.26% in total operating income.
- Accounted for approximately one fifth of the assets of the Group as at end of 2022.

| Rs. Bn. | 2022 | 2021 | Change | Change as a % |
|---|---|---|---|---|
| Net interest income | 20.629 | 8.623 | 12.006 | 139.23 |
| Foreign exchange profit | 0.121 | 0.133 | (0.012) | -9.02 |
| Net fee and commission income | 8.017 | 3.448 | 4.569 | 132.51 |
| Other income | (0.029) | 0.011 | (0.040) | -363.64 |
| Total operating income | 28.739 | 12.216 | 16.523 | 135.26 |
| Impairment charges and other losses | (24.928) | (9.287) | (15.641) | 168.42 |
| Net operating income | 3.810 | 2.928 | 0.882 | 30.12 |
| Profit before tax | 1.098 | 0.604 | 0.494 | 81.79 |
| Segment assets | 498.406 | 426.522 | 71.884 | 16.85 |

Graph – 27: **Total operating income**




Graph – 28: **Assets vs profit before tax vs impairment charges**

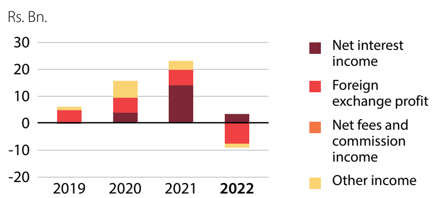



### Dealing/Treasury

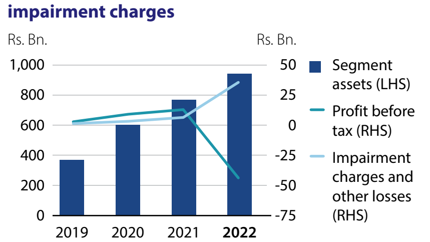
- A sharp increase in impairment charges by 540.94% mainly due to additional impairment provisions made o/a USD denominated Government Securities consequent to the downgrading of the sovereign rating of the country.
- Growth in assets by 22.64% mainly due to the increase of foreign currency denominated assets as a result of rupee depreciation and excess liquidity being invested in treasury related operations.
- Treasury navigated through the challenging context by conducting derivative transactions, exploring opportunities for overseas expansions, expanding networking sessions, and launching an online platform for foreign exchange transactions.

| Rs. Bn. | 2022 | 2021 | Change | Change as a % |
|---|---|---|---|---|
| Net interest income | 3.214 | 13.923 | (10.709) | -76.92 |
| Foreign exchange profit | (7.823) | 5.696 | (13.519) | -237.34 |
| Net fee and commission income | 0.008 | 0.018 | (0.010) | -55.56 |
| Other income | (1.343) | 3.168 | (4.511) | -142.39 |
| Total operating income | (5.944) | 22.806 | (28.750) | -126.06 |
| Impairment charges and other losses | (37.053) | (5.781) | (31.272) | 540.94 |
| Net operating income | (42.997) | 17.025 | (60.022) | -352.55 |
| Profit before tax | (44.857) | 14.391 | (59.248) | -411.70 |
| Segment assets | 945.053 | 770.572 | 174.481 | 22.64 |

Graph – 29: **Total operating income**




Graph – 30: **Assets vs profit before tax vs impairment charges**

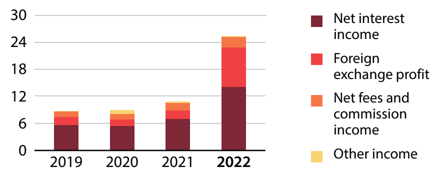


## International operations

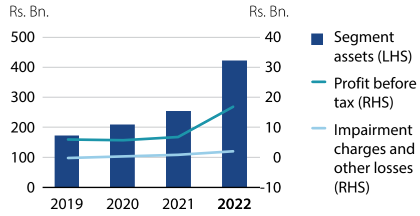
- Profit before tax increased by almost three times during 2022.
- A growth of 135.43% was recorded in the total operating income.
- Recorded highest exchange profit of Rs 8.752 Bn.
- The Bangladesh operation of the Bank made a noteworthy contribution of 91.65% of the profit before tax of international operations.
- Profit recorded by Commercial Bank of Maldives Private Limited for the year is the highest profit achieved by the Company in its 6-year history.
- The Bangladesh operation has become the best Regional Bank in performance in terms of deposits, advances and profitability.

| Rs. Bn. | **2022** | 2021 | Change | Change as a % |
|---|---|---|---|---|
| Net interest income | 14.051 | 6.913 | 7.138 | 103.25 |
| Foreign exchange profit | 8.757 | 1.959 | 6.798 | 347.01 |
| Net fee and commission income | 2.387 | 1.611 | 0.776 | 48.17 |
| Other income | 0.145 | 0.279 | (0.134) | -48.03 |
| Total operating income | 25.339 | 10.763 | 14.576 | 135.43 |
| Impairment charges and other losses | (1.091) | (0.477) | (0.614) | 128.72 |
| Net operating income | 24.248 | 10.286 | 13.962 | 135.74 |
| Profit before tax | 17.424 | 6.412 | 11.012 | 171.74 |
| Segment assets | 422.835 | 254.416 | 168.419 | 66.20 |

Graph – 31: **Total operating income**




Graph – 32: **Assets vs profit before tax vs impairment charges**

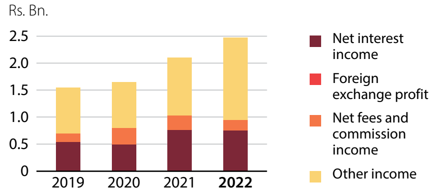



## NBFI, Real Estate and Services

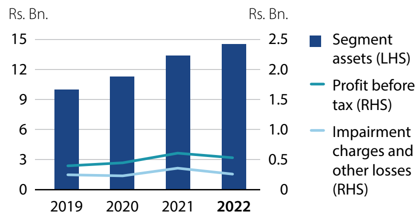
- Highest contribution to the other sources of income of the Group.
- CBC Tech Solutions Limited was appointed as a retail partner by Lenovo which is a Fortune 500 technology company.
- CBC Tech was the first Sri Lankan company to import the Lenovo Think Centre Neo desktop computers powered by 12th generation Intel® Core™ processors in June 2022.

| Rs. Bn. | **2022** | 2021 | Change | Change as a % |
|---|---|---|---|---|
| Net interest income | 0.679 | 0.767 | (0.088) | -11.47 |
| Foreign exchange profit | 0.002 | – | 0.002 | N/A |
| Net fee and commission income | 0.180 | 0.265 | (0.085) | -32.08 |
| Other income | 1.369 | 1.069 | 0.300 | 28.06 |
| Total operating income | 2.230 | 2.100 | 0.130 | 6.19 |
| Impairment charges and other losses | (0.249) | (0.386) | 0.137 | -35.49 |
| Net operating income | 1.981 | 1.714 | 0.267 | 15.58 |
| Profit before tax | 0.542 | 0.636 | (0.094) | -14.78 |
| Segment assets | 14.566 | 13.386 | 1.180 | 8.82 |

Graph – 33: **Total operating income**




Graph – 34: **Assets vs profit before tax vs impairment charges**



## Performance of the overseas operations, subsidiaries, and the associate

Performance of the Bangladesh Operations will have to be reviewed in the context of the Operating Context and Outlook (pages 46 to 51).

Commercial Bank of Ceylon PLC (CBC) commenced its operations in Bangladesh (CBC Bangladesh) by acquiring the banking business of Credit Agricole Indosuez, a French multi-national Bank, in November 2003.

During the past 19 years of operations, CBC Bangladesh has established its position well above the other Regional Banks operating in the country with 20 operating units which includes 11 Branches, 1 Sub Branch, 6 SME Centers and 2 Offshore Banking Units.

As at end of 2022, CBC Bangladesh owned Twenty-four ATM machines (including seven in off-site locations). In addition, an Automated Banking Centre (ABC) comprising a real time Cash Deposit Machine, Cheque Deposit Machine, KIOSK machine and a digital signage has been established in its Motijheel Branch.

CBC Bangladesh has become the best Regional Bank in performance (deposits, advances and profitability) by providing excellent service and commitments focusing the following areas:

**Corporate Banking:** has established its name as a premier regional bank from the inception offering exceptional relationship banking to corporate banking customers, thereby expanding the corporate banking portfolio multi-fold.

**Consumer Banking:** has plans to become a preferred Retail, SME and Credit Cards provider for the target market through a superior IT platform and innovative products, helping it to achieve a healthy deposit mix with a strong savings base.

**Treasury Management:** Provides consistent and efficient fund management through superior expertise with diversified and novel treasury products.

**Human Resources:** one of the most preferred employers in the banking industry by providing excellent opportunities for training and development.

**Digital Banking:** introduced a technologically advanced Digital Banking Product branded e-passbook, which is unique in the country, PayMaster, for the corporate clients to ensure smooth daily operations. Also introduced Two Factor Authentication system for all online transactions without physical cards, e-statement & Over the air pin (OTAP) for Credit Cards and Internet Banking for Corporate and Retail Banking Customers with several new features.

At present, CBC Bangladesh has its presence in five main districts in the country i.e. Dhaka, Chittagong, Sylhet, Narayanganj and Gazipur. Despite the severe competition among the international and large local banks, CBC Bangladesh has recorded a consistent growth in its business volumes, specially by catering to multinationals and large local corporates by offering superior services and commitments. With the expansion of the branch network, CBC Bangladesh operations has managed to attract more SME and Retail clientele to the Bank, enabling it to improve its low cost deposit base resulting in lower cost of funds and improved profitability.

During 2022, CBC Bangladesh upgraded Internet Banking System with various new features and some of them are for the first time in Bangladesh. Several new initiatives such as e-Leave and e-Attendance Systems, revamping of Corporate Website, Call Centre Solution, integration with National Payment System Bangladesh (NPSB) etc. have been effected in addition to inclusion of several new features for existing products and services.

The progress of the CBC Bangladesh operations in core banking areas over the past five years is summarised below:

Table 25: **Key Performances Indicators – Bangladesh Operations**

| Indicator | **2022 BDT Mn.** | 2021 BDT Mn. | 2020 BDT Mn. | 2019 BDT Mn. | 2018 BDT Mn. | 5-Year CAGR (%) |
|---|---|---|---|---|---|---|
| Total deposit | **71,243.10** | 64,959.50 | 50,997.50 | 45,362.98 | 35,221.65 | 19.85 |
| Gross advances | **51,561.50** | 58,110.88 | 55,039.33 | 47,449.60 | 38,448.10 | 9.93 |
| Profit before tax | **5,424.90** | 3,035.35 | 2,898.24 | 2,744.68 | 2,440.56 | 25.27 |
| Profit after tax | **2,954.40** | 1,744.11 | 1,709.47 | 1,697.40 | 1,407.23 | 24.48 |

Table 26: **Key Financial Ratios – Bangladesh Operations (based on management accounts)**

| Indicator | **2022** | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Cost/Income ratio (%) | **16.47** | 23.68 | 24.76 | 24.74 | 25.27 |
| Net interest margin (%) | **4.05** | 3.21 | 4.01 | 4.27 | 4.53 |
| Profit per employee (BDT Mn.) | **16.95** | 10.25 | 9.96 | 8.65 | 8.16 |
| ROA (%) | **5.61** | 3.20 | 3.46 | 3.53 | 4.31 |
| ROE (%) | **17.95** | 12.24 | 13.32 | 14.82 | 13.97 |


*Mr Najith Meewanage, CEO, Bangladesh, receiving the Top 10 Best Business Leaders Award*

During the year 2022 too, the CBC Bangladesh won a number of awards and accolades including the following:

- Best Foreign Bank in Bangladesh – 2022 by Global Economic Limited, UK-based magazine for 3rd consecutive year.
- Most Recommended Foreign Bank in Bangladesh – 2022 by World Business Outlook, a Singapore-based magazine for 2nd consecutive year.
- Most Sustainable Bank in Bangladesh – 2022 by International Business Magazine, UAE for 2nd consecutive year
- Best Corporate Bank Bangladesh – 2022 by Global Business Review Magazine, UAE.
- Best Foreign Bank in Bangladesh – 2022 by World Economic Magazine, USA based magazine

One of the key events during the year was that Mr Najith Meewanage - Chief Executive Officer of the Bangladesh Operations being selected as one of the Top 10 Best Business Leaders in Bangladesh - 2022 by CEO Insights Magazine, India.

In addition, a special commendation letter was awarded by the Central Bank of Bangladesh for disbursing the full allocation of the stimulus package to the SME sector during the year 2022 as well while another special award was awarded by the Large Tax Payer Unit (LTU) of National Board of Revenue (NBR), Bangladesh for being one of the highest tax payers of the country.

Meanwhile, the Credit Rating Information and Services Ltd. (CRISL) rated CBC Bangladesh operations AAA for the 12th consecutive year based on the financial performance for 2021.

## Subsidiaries and associate of the Group

Given below is a brief overview of the operations of the subsidiaries and the associate of the Bank.

## Local subsidiaries

### Commercial Development Company PLC (CDC)

Established in 1980 as the Bank's first subsidiary, CDC owns the Head Office building of Commercial Bank, "Commercial House", and has two other properties in Negombo and Tangalle. The Bank holds a stake of 90% in CDC.

CDC is the only listed Subsidiary of the Group, with a market capitalisation of Rs. 1.146 Bn. as of end 2022 (2021: Rs. 1.632 Bn). The principal business activities of CDC include renting of premises, hiring of vehicles, outsourcing of non-core staff and provision of other utility services to the Bank.

CDC recorded a post-tax profit of Rs. 224.378 Mn. for the year 2022, compared to Rs. 401.506 Mn. reported in 2021. The drop in profits was mainly due to increase in deferred tax provision on the cumulative fair value gains recognised on Investment Property consequent to the increase in the corporate tax rate to 30% from 24%. The income from core business activities of the Company amounted to Rs. 631.128 Mn. which reflected marginal drop of 0.18%, while the profit before tax for the year amounted to Rs. 401.289 Mn., compared to Rs. 427.265 Mn., recorded for 2021, primarily due to a reduction in the fair value gains on investment properties of Rs. 24.629 Mn. The total assets of the Company crossed the Rs. 4 Bn., mark and stood at Rs.4.055 Bn., as at end of 2022 compared to Rs. 3.785 Bn., as at end 2021.

### CBC Tech Solutions Limited

CBC Tech Solutions Limited is a fully owned subsidiary of the Bank and provides Information Technology services and solutions to the Bank, its subsidiaries and to a few selected corporates.

The main lines of business of CBC Tech Solutions are providing Information Technology support, supply of hardware, licensed software, hardware maintenance, Point of Sale (POS) maintenance, software development, and outsourcing of professional and skilled manpower to the Bank.

At present, the Company operates from five regional support centers in Colombo, Galle, Kandy, Jaffna and Badulla to ensure prompt services.

During 2022, the Company continued with its island wide Personal computer/server maintenance, Point of Sales machines troubleshooting, and first level technical support for the Bank. Furthermore, the Company embarked on new service line by undertaking the maintenance of Passbook printers to further strengthen the bottom line during the year. The Software development unit completed many projects, developed a few customer centric products, and also penetrated in to several foreign customers in 2022. The Company further upskilled its employees and outsourced them to the subsidiaries of the Bank.

The Company was appointed as a retail partner by Lenovo which is a Fortune 500 technology company. Consequent to this partnership, the Company is an agent for Lenovo's range of personal computers, tablets and accessories, including the IdeaPad, Yoga, Legion and ThinkPad series. Notably, CBC Tech was the first Sri Lankan company to import the Lenovo Think Centre Neo desktop computers powered by 12th generation Intel® Core™ processors in June 2022.

The Company recorded a total revenue of Rs. 647.408 Mn., for the year 2022, with a growth of 82.72% compared to Rs. 354.303 Mn., recorded in 2021. The substantial growth in income was mainly due to the higher hardware sales. The pre-tax profit of the Company for the year stood at Rs.186.761 Mn., as against Rs. 156.761 Mn., reported in 2021, which recorded a growth of 19.14%. The post-tax profit amounted to Rs. 171.725 Mn., for the year 2022 compared to Rs. 181.134 Mn., reported for 2021, a drop of 5.19%. However, after discounting for the effect of drop in taxes which was accounted in 2021, based on the normalised profit for 2021, the Company recorded a growth 12.99% in 2022. The Company aims to emerge as one of the leading innovative ICT solutions providers in Sri Lanka, having a mission to deliver the most reliable, customer-centric ICT products and services to drive technological innovations.

### CBC Finance Limited (CBCF)

CBC Finance Ltd (CBCF) is a fully owned subsidiary of the Bank and is a Licensed Finance Company (LFC) under the Finance Business Act No. 42 of 2011. After changing the brand name from Serendib Finance Ltd to CBC Finance Ltd, the Company embarked on an aggressive image-enhancing campaign and further strengthened the governance structure and synergies with the parent Company, Commercial Bank of Ceylon PLC.

The unprecedented macroeconomic conditions that prevailed during the year exerted tremendous pressure on the entire finance industry, making it very challenging for all our customers, irrespective of their ticket size. Nevertheless, the Company was able to increase its gross income for 2022 by 29% to Rs. 1.636 Bn. However, there was a substantial impact from the increased cost of funds from Rs. 443 Mn., in 2021 to Rs. 986 Mn., in 2022. Consequently, the Company's net operating income decreased from Rs. 431 Mn., in 2021 to Rs. 390 Mn. for the current year. The other operating income increased to Rs. 61 Mn., in 2022 from Rs. 50 Mn., in 2021. However, the Profit for the year decreased to Rs. 39 Mn., compared to the figure of Rs. 51 Mn., last year due to the prudent provisions made considering the high-risk segments of the portfolio. The drive for the canvassing of deposits continued with stiff competition, and the year-end portfolio stood at Rs. 5.116 Bn., due to timely measures taken for retaining deposit liabilities with minor cost impact to the bottom line.

While accepting the challenge of growing the portfolios in an unprecedented market, the Company's total assets increased to Rs.10.954 Bn., from Rs. 10.311 Bn., recorded for 2021, mainly due to its core product - finance leasing business growing to Rs. 2.129 Bn., from Rs. 1.771 Bn., in 2021. The Company's Gross NPA ratio of 16.98% was on par with the industry.

During the year, the Company relocated Kaduruwela Branch to provide a better customer experience. In addition, with the approval granted by the Central Bank of Sri Lanka to open ten new branches, the Company expanded the delivery channels by opening branches in Trincomalee, Vavuniya and Batticaloa and is planning to open another three branches in the year 2023 in strategically important business areas to enhance its presence.

### Commercial Insurance Brokers (Pvt) Ltd. (CIBL)

The Bank has a stake in CIBL of 60%. The principal business activity of CIBL is insurance brokering for all types of insurance through reputed life and general insurance companies in Sri Lanka.

CIBL recorded a post-tax profit of Rs. 32.435 Mn. for the year ended December 31, 2022, with a growth of 7.09% compared to Rs. 30.286 Mn. recorded in 2021. The CIBL's total assets stood at Rs. 720.928 Mn. as at December 31, 2022, compared to the total assets of Rs. 705.396 Mn., a year ago.

## Local associate

### Equity Investments Lanka Ltd. (EQUILL)

The Bank owns a 22.92% stake in EQUILL, a venture capital company established 32 years ago. EQUILL invests in equity and equity-featured debt instruments.

The Company recorded a loss of Rs 16.263 Mn. in 2022 as against the post-tax profit of Rs. 8.272 Mn. reported in 2021.

## Foreign subsidiaries

### Commercial Bank of Maldives Private Limited (CBM)

In partnership with Tree Top Investments (TTI), CBM was founded in the Republic of Maldives as the second foreign subsidiary of the Bank. TTI contributes vital local market knowledge to the Company and has a stake of 45%, while the Bank holds a 55% stake in the Company. Established during the latter part of 2016, CBM set up its Head Office and first branch in the capital, Malé and by end of 2017, CBM opened its second branch in Hulhumale.

While offering an extensive range of financial services, CBM's vision is "to be the trusted financial service provider for growth, delivering excellence in service quality". CBM is seen as the most technologically advanced, innovative, customer friendly, and the most sought-after financial service organisation in the Republic of Maldives.

CBM has invested heavily on its Open Banking project during the year 2022 and wishes to maximise the usage of interoperability capabilities in the platform by developing the most advanced App in the market, once the services are launched in 2023.

By end of December 31, 2022, CBM managed to increase its total deposit base to MVR 2,542.4 Mn., from MVR 1,993.4 Mn., as at end December 31, 2021, which is a growth of MVR 549.0 Mn or 27.54%. Further, during the year CBM managed to increase its loans and advances portfolio by MVR 195.1 Mn., or by 33.09% and it stood at MVR 785.6 Mn., as at December 31, 2022, compared to MVR 589.7 Mn., a year ago.

During the year 2022, CBM recorded a post-tax profit of MVR 53.75 Mn., compared to the post-tax profit of MVR 32.84 Mn. reported in 2021. Profit recorded in the current year is the highest profit achieved by the Company in the operation of its 6-year history.

Bank's International Operations in terms of branches in Bangladesh and subsidiaries in the Maldives and Myanmar helped the Bank to geographically diversify its operations which made a significant contribution to the profit before tax of the Group in the year under review.

### CBC Myanmar Microfinance Company (CBC Myanmar)

CBC Myanmar was established in July 2018 with the opening of its Head Office and a branch in Lewe Township in Nay Pyi Taw as a fully owned subsidiary of the Bank with the focus of capitalising on opportunities in the Microfinance sector. After securing a permanent business license in 2021, the Company expanded its operations to Aye Lar, Zabuthiri, and Pyinmana townships.

Myanmar economy was projected to grow by 3% following a 18% contraction in 2021. The GDP for 2022 estimated to be around 13% but still lower than the GDP recorded for 2019.

The CBC Myanmar started the year with 80% of its portfolio in Portfolio at Risk (PAR). As a result of persistent recovery actions throughout the year, the Company was able to achieve a PAR of 27.7% towards the year-end while the industry PAR was well above 30%.

In November 2022, CBC Myanmar managed to obtain a credit facility of MMK 1.5 Bn., through United Amara Bank of Myanmar against a Standby Letter of Credit facility of USD 1 Mn., issued by the parent company to maintain credit growth as further capital infusion was not possible.

Overall, the Company was able increase its interest income substantially with improvement of portfolio quality and with a gradual growth in the loan book. However, the break-even target of the Company got further delayed due to sharp currency depreciation as a significant portion of Company's expenses are paid in USD.

A special provision of MMK 398.86 Mn., (USD 189,932) was made as measure of prudency above the regulatory requirements to meet possible write offs in ensuing months for the loans in arrears during the period of pandemic and political instability.

The Company disbursed MMK 3.7 Bn. in new loans during 2022 despite the challenges in the operating environment and reported a loss of MMK 333Mn. during the financial year ended December 31, 2022 compared to a profit of MMK 247 Mn. during the previous financial year. Identifying the need for digital platforms to facilitate recoveries, the Company has initiated to partner with leading digital wallet share providers.

The Company is optimistic that the current economic conditions would gradually improve enabling the Company to enter in to profit zone in the second half of 2023. The Company has planned to expand into another region and also to open more branches in the Nay Pyi Taw region if the conditions improve in 2023.

### Commex Sri Lanka S.R.L. (Commex)

Commex, a fully-owned subsidiary of the Bank, commenced business under the Authorised Payments Institute (API) license issued by the Bank of Italy in 2016. However, during the year 2022, the Board of Directors of Commex decided to voluntarily liquidate the Company owing to the economic impact of COVID-19 and announcement to that effect was made by the Bank to the Colombo Stock exchange. During the year 2022, Commex recorded a loss of Rs.19.804 Mn.

The details of the Group companies together with a summary of key financial information for each company is given in the section on "Group Structure" on pages 122 and 123.

# Summary of Interim Financial Statements
# Income Statement – Group and Bank – 2022 and 2021

| | 1st Quarter ended March 31 | | 2nd Quarter ended June 30 | |
|---|---|---|---|---|
| | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| **Group** | | | | |
| Net interest income | **18,823,025** | 15,476,721 | **21,889,560** | 15,681,311 |
| Net fee and commission income | **4,087,687** | 3,023,322 | **4,789,815** | 2,688,925 |
| Other operating income (net) | **11,333,380** | 5,660,582 | **8,308,652** | 3,813,475 |
| Less: Impairment charges and other losses | **5,960,556** | 7,156,050 | **29,258,063** | 6,498,391 |
| **Net operating income** | **28,283,536** | 17,004,575 | **5,729,964** | 15,685,320 |
| Less: Expenses | **11,875,805** | 8,600,269 | **8,758,423** | 8,336,383 |
| **Operating profit** | **16,407,731** | 8,404,306 | **(3,028,459)** | 7,348,937 |
| Add: Share of profits/(losses) of associate companies | **(1,869)** | (133) | **(1,607)** | 546 |
| **Profit before income tax** | **16,405,862** | 8,404,173 | **(3,030,066)** | 7,349,483 |
| Less: Income tax expense | **4,631,158** | 1,606,916 | **(433,112)** | 1,793,203 |
| **Profit for the period** | **11,774,704** | 6,797,257 | **(2,596,954)** | 5,556,280 |
| Quarterly profit as a percentage of the profit after tax | **48.3** | 28.0 | **(10.6)** | 22.9 |
| Cumulative quarterly profit as a percentage of the profit after tax | **48.3** | 28.0 | **37.6** | 50.9 |

| | 1st Quarter ended March 31 | | 2nd Quarter ended June 30 | |
|---|---|---|---|---|
| | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| **Bank** | | | | |
| Net interest income | **18,294,991** | 15,051,903 | **21,131,976** | 15,226,162 |
| Net fee and commission income | **3,962,233** | 2,886,892 | **4,618,230** | 2,570,984 |
| Other operating income (net) | **11,355,289** | 5,692,641 | **8,308,491** | 3,806,422 |
| Less: Impairment charges and other losses | **5,869,091** | 7,052,038 | **29,091,260** | 6,306,004 |
| **Net operating income** | **27,743,422** | 16,579,398 | **4,967,437** | 15,297,564 |
| Less: Expenses | **11,654,722** | 8,396,219 | **8,480,267** | 8,061,141 |
| **Profit before income tax** | **16,088,700** | 8,183,179 | **(3,512,830)** | 7,236,423 |
| Less: Income tax expense | **4,541,083** | 1,525,107 | **(557,428)** | 1,760,639 |
| **Profit for the period** | **11,547,617** | 6,658,072 | **(2,955,402)** | 5,475,784 |
| Quarterly profit as a percentage of the profit after tax | **50.3** | 28.2 | **(12.9)** | 23.2 |
| Cumulative quarterly profit as a percentage of the profit after tax | **50.3** | 28.2 | **37.4** | 51.4 |

| | 3rd Quarter ended September 30 | | 4th Quarter ended December 31 | | Total | | |
|---|---|---|---|---|---|---|---|
| | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 | |
| | | | | | | | **Group** |
| | 22,101,235 | 16,375,248 | 21,851,391 | 18,883,052 | 84,665,211 | 66,416,332 | Net interest income |
| | 5,035,555 | 2,884,472 | 6,256,044 | 3,645,475 | 20,169,101 | 12,242,194 | Net fee and commission income |
| | 7,468,511 | 3,347,432 | 4,691,792 | 2,118,308 | 31,802,335 | 14,939,797 | Other operating income (net) |
| | 17,052,988 | 4,342,977 | 19,652,653 | 7,142,508 | 71,924,260 | 25,139,926 | Less: Impairment charges and other losses |
| | 17,552,313 | 18,264,175 | 13,146,574 | 17,504,327 | 64,712,387 | 68,458,397 | **Net operating income** |
| | 8,893,074 | 8,950,689 | 10,676,320 | 9,615,628 | 40,203,622 | 35,502,969 | Less: Expenses |
| | 8,659,239 | 9,313,486 | 2,470,254 | 7,888,699 | 24,508,765 | 32,955,428 | **Operating profit** |
| | 1,220 | (330) | (1,471) | 1,813 | (3,727) | 1,896 | Add: Share of profits/(losses) of associate companies |
| | 8,660,459 | 9,313,156 | 2,468,783 | 7,890,512 | 24,505,038 | 32,957,324 | **Profit before income tax** |
| | 2,377,804 | 2,649,350 | (6,470,284) | 2,617,567 | 105,566 | 8,667,036 | Less: Income tax expense |
| | 6,282,655 | 6,663,806 | 8,939,067 | 5,272,945 | 24,399,472 | 24,290,288 | **Profit for the period** |
| | 25.7 | 27.4 | 36.6 | 21.7 | 100.0 | 100.0 | Quarterly profit as a percentage of the profit after tax |
| | 63.4 | 78.3 | 100.0 | 100.0 | – | – | Cumulative quarterly profit as a percentage of the profit after tax |

| | 3rd Quarter ended September 30 | | 4th Quarter ended December 31 | | Total | | |
|---|---|---|---|---|---|---|---|
| | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 | |
| | | | | | | | **Bank** |
| | 21,283,570 | 15,934,934 | 21,033,493 | 18,397,613 | 81,744,030 | 64,610,612 | Net interest income |
| | 4,882,230 | 2,803,989 | 6,028,575 | 3,489,598 | 19,491,268 | 11,751,463 | Net fee and commission income |
| | 7,484,902 | 3,345,805 | 4,504,448 | 2,187,582 | 31,653,130 | 15,032,450 | Other operating income (net) |
| | 16,951,155 | 4,261,500 | 19,550,116 | 7,072,801 | 71,461,622 | 24,692,343 | Less: Impairment charges and other losses |
| | 16,699,547 | 17,823,228 | 12,016,400 | 17,001,992 | 61,426,806 | 66,702,182 | **Net operating income** |
| | 8,626,581 | 8,818,226 | 10,066,851 | 9,425,393 | 38,828,421 | 34,700,979 | Less: Expenses |
| | 8,072,966 | 9,005,002 | 1,949,549 | 7,576,599 | 22,598,385 | 32,001,203 | **Profit before income tax** |
| | 2,226,823 | 2,533,250 | (6,581,884) | 2,576,156 | (371,406) | 8,395,152 | Less: Income tax expense |
| | 5,846,143 | 6,471,752 | 8,531,433 | 5,000,443 | 22,969,791 | 23,606,051 | **Profit for the period** |
| | 25.5 | 27.4 | 37.1 | 21.2 | 100.0 | 100.0 | Quarterly profit as a percentage of the profit after tax |
| | 62.9 | 78.8 | 100.0 | 100.0 | – | – | Cumulative quarterly profit as a percentage of the profit after tax |

# Statement of Financial Position – Group – 2022 and 2021

| | 1st Quarter ended | | 2nd Quarter ended | |
|---|---|---|---|---|
| *As at* | **March 31, 2022** | March 31, 2021 | **June 30, 2022** | June 30, 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Assets** | | | | |
| Cash and cash equivalents | 139,725,913 | 51,995,270 | 107,999,772 | 67,888,744 |
| Balances with Central Banks | 87,849,345 | 79,603,760 | 51,501,124 | 84,715,615 |
| Placements with banks | 5,882,556 | 13,834,678 | 18,313,838 | 7,625,796 |
| Securities purchased under re-sale agreements | 1,756,293 | – | 2,002,143 | – |
| Derivative financial assets | 24,426,913 | 3,633,738 | 23,674,635 | 3,105,697 |
| Financial assets recognised through profit or loss – measured at fair value | 25,090,307 | 25,982,011 | 54,201,704 | 34,171,453 |
| Financial assets at amortised cost – Loans and advances to banks | – | 829,740 | | 837,037 |
| Financial assets at amortised cost – Loans and advances to other customers | 1,158,500,812 | 929,618,154 | 1,219,947,845 | 971,894,929 |
| Financial assets at amortised cost – Debt and other financial instruments | 451,890,370 | 350,832,246 | 770,170,847 | 375,044,696 |
| Financial assets measured at fair value through other comprehensive income | 316,414,558 | 315,079,615 | 71,383,043 | 335,866,978 |
| Investments in subsidiaries | – | – | – | – |
| Investment in associate | 57,656 | 63,111 | 55,628 | 63,749 |
| Property, plant and equipment and right-of-use assets | 25,535,145 | 25,674,949 | 25,830,332 | 25,232,279 |
| Investment properties | 72,400 | 67,116 | 72,400 | 67,900 |
| Intangible assets | 2,505,708 | 1,914,792 | 2,653,532 | 1,868,300 |
| Leasehold property | – | – | – | – |
| Deferred tax assets | 16,467,507 | 4,187,627 | 15,604,218 | 5,173,206 |
| Other assets | 30,384,439 | 20,983,814 | 40,069,160 | 21,168,312 |
| **Total assets** | 2,286,559,922 | 1,824,300,621 | 2,403,480,221 | 1,934,724,691 |
| **Liabilities** | | | | |
| Due to banks | 78,825,477 | 80,049,153 | 64,607,923 | 103,006,874 |
| Derivative financial liabilities | 13,445,927 | 4,388,511 | 8,640,775 | 2,609,946 |
| Securities sold under repurchase agreements | 168,475,481 | 96,228,787 | 214,906,611 | 113,577,165 |
| Financial liabilities at amortised cost – Due to depositors | 1,706,467,472 | 1,346,539,936 | 1,756,807,475 | 1,405,045,018 |
| Financial liabilities at amortised cost – Other borrowings | 32,042,811 | 52,098,343 | 30,611,911 | 50,377,494 |
| Current tax liabilities | 13,745,921 | 7,588,842 | 17,887,416 | 8,775,280 |
| Deferred tax liabilities | 348,851 | 344,928 | 348,867 | 344,335 |
| Other liabilities | 52,266,429 | 39,132,442 | 57,394,541 | 46,354,848 |
| Due to subsidiaries | – | – | – | – |
| Subordinated liabilities | 45,117,068 | 34,239,946 | 50,868,395 | 34,704,218 |
| **Total liabilities** | 2,110,735,437 | 1,660,610,888 | 2,202,073,914 | 1,764,795,178 |
| **Equity** | | | | |
| Stated capital | 58,149,621 | 54,564,038 | 58,149,621 | 54,565,350 |
| Statutory reserves | 10,590,338 | 9,287,728 | 10,590,338 | 9,287,728 |
| Retained earnings | 12,625,944 | 7,254,535 | 4,689,644 | 12,848,919 |
| Other reserves | 91,496,084 | 90,696,736 | 124,232,206 | 91,273,009 |
| **Total equity attributable to equity holders of the Group/Bank** | 172,861,987 | 161,803,037 | 197,661,809 | 167,975,006 |
| Non-controlling interest | 2,962,498 | 1,886,696 | 3,744,498 | 1,954,507 |
| **Total equity** | 175,824,485 | 163,689,733 | 201,406,307 | 169,929,513 |
| **Total liabilities and equity** | 2,286,559,922 | 1,824,300,621 | 2,403,480,221 | 1,934,724,691 |
| Contingent liabilities and commitments | 859,963,467 | 800,865,904 | 723,286,189 | 744,326,170 |
| Net assets value per ordinary share (Rs.) | 139.43 | 135.49 | 159.43 | 140.66 |
| **Quarterly growth (%)** | | | | |
| Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers | 12.52 | 2.18 | 5.30 | 4.55 |
| Financial liabilities at amortised cost – Due to depositors | 15.88 | 4.66 | 2.95 | 4.34 |
| Total assets | 15.28 | 3.51 | 5.11 | 6.05 |

| 3rd Quarter ended | | 4th Quarter ended | | |
|---|---|---|---|---|
| **September 30, 2022 Rs. '000** | September 30, 2021 Rs. '000 | **December 31, 2022 (Audited) Rs. '000** | December 31, 2021 (Audited) Rs. '000 | *As at* |
| | | | | **Assets** |
| 117,183,269 | 93,000,346 | 151,109,490 | 69,335,379 | Cash and cash equivalents |
| 60,156,210 | 49,431,255 | 78,597,120 | 56,777,465 | Balances with Central Banks |
| 57,528,580 | 20,218,425 | 96,082,937 | 12,498,709 | Placements with banks |
| – | 2,697,359 | 1,517,308 | 3,000,490 | Securities purchased under resale agreements |
| 8,336,323 | 3,271,766 | 8,345,091 | 3,245,120 | Derivative financial assets |
| 42,638,708 | 31,522,053 | 24,873,057 | 23,436,123 | Financial assets recognised through profit or loss – measured at fair value |
| | 833,952 | | | Financial assets at amortised cost – Loans and advances to banks |
| 1,159,104,807 | 999,913,656 | 1,155,492,527 | 1,029,584,075 | Financial assets at amortised cost – Loans and advances to other customers |
| 744,530,469 | 356,179,525 | 761,650,234 | 385,390,598 | Financial assets at amortised cost – Debt and other financial instruments |
| 108,526,607 | 345,560,552 | 118,652,257 | 335,953,802 | Financial assets measured at fair value through other comprehensive income |
| – | – | – | - | Investments in subsidiaries |
| 57,053 | 63,096 | 55,302 | 60,428 | Investment in associate |
| 25,881,016 | 25,001,485 | 27,446,607 | 24,744,634 | Property, plant and equipment and right-of-use assets |
| 72,400 | 67,900 | 80,350 | 72,400 | Investment properties |
| 3,303,890 | 2,047,091 | 4,113,200 | 2,272,639 | Intangible assets |
| – | – | – | - | Leasehold property |
| 18,688,275 | 8,052,166 | 30,727,213 | 10,036,105 | Deferred tax assets |
| 44,293,042 | 24,600,114 | 40,811,211 | 27,083,177 | Other assets |
| 2,390,300,649 | 1,962,460,741 | 2,499,553,904 | 1,983,491,144 | **Total assets** |
| | | | | **Liabilities** |
| 65,021,690 | 80,540,568 | 64,971,170 | 73,801,195 | Due to banks |
| 4,350,184 | 3,017,891 | 2,880,667 | 2,092,198 | Derivative financial liabilities |
| 129,659,272 | 132,578,610 | 97,726,435 | 151,424,854 | Securities sold under repurchase agreements |
| 1,853,469,051 | 1,447,888,478 | 1,977,743,661 | 1,472,640,456 | Financial liabilities at amortised cost – Due to depositors |
| 20,905,990 | 46,167,470 | 16,150,356 | 32,587,051 | Financial liabilities at amortised cost – Other borrowings |
| 19,391,280 | 8,737,272 | 24,916,074 | 9,486,772 | Current tax liabilities |
| 349,849 | 343,822 | 437,123 | 349,106 | Deferred tax liabilities |
| 41,904,727 | 31,862,811 | 40,354,877 | 33,253,518 | Other liabilities |
| – | – | – | - | Due to subsidiaries |
| 50,935,604 | 43,363,999 | 61,400,967 | 38,303,466 | Subordinated liabilities |
| 2,185,987,647 | 1,794,500,921 | 2,286,581,330 | 1,813,938,616 | **Total Liabilities** |
| | | | | **Equity** |
| 58,149,621 | 54,565,494 | 58,149,621 | 54,566,957 | Stated capital |
| 10,590,338 | 9,287,728 | 12,079,670 | 10,590,338 | Statutory reserves |
| 10,795,707 | 19,680,594 | 6,790,304 | 9,890,762 | Retained earnings |
| 120,834,984 | 82,402,906 | 131,845,571 | 92,426,660 | Other reserves |
| 200,370,650 | 165,936,722 | 208,865,166 | 167,474,717 | **Total equity attributable to equity holders of the Group/Bank** |
| 3,942,352 | 2,023,098 | 4,107,408 | 2,077,811 | Non-controlling interest |
| 204,313,002 | 167,959,820 | 212,972,574 | 169,552,528 | **Total equity** |
| 2,390,300,649 | 1,962,460,741 | 2,499,553,904 | 1,983,491,144 | **Total liabilities and equity** |
| 600,709,801 | 674,796,325 | 555,531,537 | 685,379,028 | Contingent liabilities and commitments |
| 161.62 | 138.95 | 168.47 | 140.24 | Net assets value per ordinary share (Rs.) |
| | | | | **Quarterly growth (%)** |
| –4.99 | 2.88 | –0.31 | 2.97 | Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers |
| 5.50 | 3.05 | 6.70 | 1.71 | Financial liabilities at amortised cost – Due to depositors |
| –0.55 | 1.43 | 4.57 | 1.07 | Total assets |

# Statement of Financial Position – Bank – 2022 and 2021

| As at | 1st Quarter ended March 31, 2022 Rs. '000 | 1st Quarter ended March 31, 2021 Rs. '000 | 2nd Quarter ended June 30, 2022 (Audited) Rs. '000 | 2nd Quarter ended June 30, 2021 (Audited) Rs. '000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 138,554,687 | 50,223,404 | 106,644,408 | 66,211,229 |
| Balances with Central Banks | 81,086,848 | 76,341,432 | 45,197,919 | 80,197,728 |
| Placements with banks | 4,580,100 | 13,313,090 | 17,327,567 | 7,082,629 |
| Securities purchased under re-sale agreements | 1,756,293 | – | 2,002,143 | – |
| Derivative financial assets | 24,426,913 | 3,633,738 | 23,674,635 | 3,105,697 |
| Financial assets recognised through profit or loss – measured at fair value | 25,090,307 | 25,982,011 | 54,201,704 | 34,171,453 |
| Financial assets at amortised cost – Loans and advances to banks | – | 829,740 | – | 837,037 |
| Financial assets at amortised cost – Loans and advances to other customers | 1,139,304,710 | 916,062,889 | 1,197,683,170 | 957,384,317 |
| Financial assets at amortised cost – Debt and other financial instruments | 424,805,507 | 337,216,097 | 730,882,224 | 361,301,611 |
| Financial assets measured at fair value through other comprehensive income | 315,781,767 | 314,567,633 | 69,648,186 | 335,862,629 |
| Investments in subsidiaries | 5,808,429 | 5,808,429 | 5,808,429 | 5,808,429 |
| Investment in associate | 44,331 | 44,331 | 44,331 | 44,331 |
| Property, plant and equipment and right-of-use assets | 23,719,230 | 23,997,196 | 23,872,579 | 23,544,270 |
| Investment properties | – | – | – | – |
| Intangible assets | 1,941,213 | 1,330,727 | 2,084,157 | 1,311,076 |
| Leasehold property | – | – | – | – |
| Deferred tax assets | 16,169,713 | 3,971,770 | 15,274,931 | 4,917,109 |
| Other assets | 30,285,171 | 20,879,920 | 39,964,157 | 21,108,274 |
| **Total assets** | 2,233,355,219 | 1,794,202,407 | 2,334,310,540 | 1,902,887,819 |
| **Liabilities** | | | | |
| Due to banks | 78,898,400 | 79,383,054 | 64,643,031 | 102,474,262 |
| Derivative financial liabilities | 13,445,927 | 4,388,511 | 8,640,775 | 2,609,946 |
| Securities sold under repurchase agreements | 168,582,810 | 96,267,906 | 215,162,077 | 114,066,400 |
| Financial liabilities at amortised cost – Due to depositors | 1,660,680,484 | 1,321,759,956 | 1,696,848,972 | 1,378,167,491 |
| Financial liabilities at amortised cost – Other borrowings | 32,042,811 | 52,098,343 | 30,611,911 | 50,377,494 |
| Current tax liabilities | 13,482,706 | 7,381,495 | 17,505,583 | 8,532,714 |
| Deferred tax liabilities | – | – | – | – |
| Other liabilities | 52,002,171 | 39,067,270 | 57,008,590 | 46,172,569 |
| Due to subsidiaries | 86,493 | 96,676 | 115,191 | 98,567 |
| Subordinated liabilities | 45,117,068 | 34,239,946 | 50,868,395 | 34,704,218 |
| **Total liabilities** | 2,064,338,870 | 1,634,683,157 | 2,141,404,525 | 1,737,203,661 |
| **Equity** | | | | |
| Stated capital | 58,149,621 | 54,564,038 | 58,149,621 | 54,565,350 |
| Statutory reserves | 10,204,368 | 9,024,065 | 10,204,368 | 9,024,065 |
| Retained earnings | 11,626,483 | 6,637,622 | 3,647,706 | 12,200,306 |
| Other reserves | 89,035,877 | 89,293,525 | 120,904,320 | 89,894,437 |
| **Total equity attributable to equity holders of the Group/Bank** | 169,016,349 | 159,519,250 | 192,906,015 | 165,684,158 |
| Non-controlling Interest | – | – | – | – |
| **Total equity** | 169,016,349 | 159,519,250 | 192,906,015 | 165,684,158 |
| **Total liabilities and equity** | 2,233,355,219 | 1,794,202,407 | 2,334,310,540 | 1,902,887,819 |
| Contingent liabilities and commitments | 857,057,146 | 798,522,243 | 719,729,198 | 740,650,015 |
| Net assets value per ordinary share (Rs.) | 136.33 | 133.58 | 155.60 | 138.74 |
| **Quarterly growth (%)** | | | | |
| Financial assets at amortised cost – Loans and advances to banks & loans and advances to other customers | 12.29 | 2.14 | 5.12 | 4.51 |
| Financial liabilities at amortised cost – Due to depositors | 15.08 | 4.41 | 2.18 | 4.27 |
| Total assets | 14.58 | 3.34 | 4.52 | 6.06 |

| 3rd Quarter ended | | 4th Quarter ended | | |
|---|---|---|---|---|
| **September 30, 2022 Rs. '000** | **September 30, 2021 Rs. '000** | **December 31, 2022 (Audited) Rs. '000** | **December 31, 2021 (Audited) Rs. '000** | *As at* |
| | | | | **Assets** |
| 115,987,885 | 91,478,737 | 149,393,611 | 68,078,076 | Cash and cash equivalents |
| 50,225,992 | 45,873,467 | 66,493,499 | 52,897,908 | Balances with Central Banks |
| 56,536,485 | 19,265,858 | 95,899,645 | 11,584,952 | Placements with banks |
| – | 2,697,359 | 1,517,308 | 3,000,490 | Securities purchased under re-sale agreements |
| 8,336,323 | 3,271,766 | 8,345,091 | 3,245,120 | Derivative financial assets |
| 42,638,708 | 31,522,053 | 24,873,057 | 23,436,123 | Financial assets recognised through profit or loss – measured at fair value |
| – | 833,952 | – | – | Financial assets at amortised cost – Loans and advances to banks |
| 1,136,121,535 | 984,845,846 | 1,130,442,579 | 1,014,618,580 | Financial assets at amortised cost – Loans and advances to other customers |
| 708,272,738 | 342,169,712 | 725,935,299 | 369,417,889 | Financial assets at amortised cost – Debt and other financial instruments |
| 106,976,948 | 345,250,606 | 117,056,240 | 335,463,338 | Financial assets measured at fair value through other comprehensive income |
| 5,808,429 | 5,808,429 | 5,808,429 | 5,808,429 | Investments in subsidiaries |
| 44,331 | 44,331 | 44,331 | 44,331 | Investment in associate |
| 23,852,100 | 23,246,255 | 25,425,452 | 23,075,467 | Property, plant and equipment and right-of-use assets |
| – | – | – | – | Investment properties |
| 2,745,081 | 1,494,505 | 3,563,120 | 1,724,864 | Intangible assets |
| – | – | – | – | Leasehold property |
| 18,355,515 | 7,772,486 | 30,301,203 | 9,793,129 | Deferred tax assets |
| 44,160,287 | 24,542,510 | 40,699,168 | 27,024,475 | Other assets |
| 2,320,062,357 | 1,930,117,872 | 2,425,798,032 | 1,949,213,171 | **Total assets** |
| | | | | **Liabilities** |
| 65,126,753 | 80,362,973 | 65,130,061 | 73,777,420 | Due to banks |
| 4,350,184 | 3,017,891 | 2,880,667 | 2,092,198 | Derivative financial liabilities |
| 129,837,305 | 133,030,525 | 97,726,435 | 151,911,842 | Securities sold under repurchase agreements |
| 1,792,802,024 | 1,420,186,722 | 1,914,359,494 | 1,443,093,453 | Financial liabilities at amortised cost – Due to depositors |
| 20,905,990 | 46,167,470 | 16,150,356 | 32,587,051 | Financial liabilities at amortised cost – Other borrowings |
| 19,124,762 | 8,508,147 | 24,475,319 | 9,294,180 | Current tax liabilities |
| – | – | – | – | Deferred tax liabilities |
| 41,461,508 | 31,794,069 | 39,860,573 | 33,210,883 | Other liabilities |
| 96,295 | 80,785 | 115,484 | 48,699 | Due to subsidiaries |
| 50,935,604 | 43,363,999 | 61,400,967 | 38,303,466 | Subordinated liabilities |
| 2,124,640,425 | 1,766,512,581 | 2,222,099,356 | 1,784,319,192 | **Total liabilities** |
| | | | | **Equity** |
| 58,149,621 | 54,565,494 | 58,149,621 | 54,566,957 | Stated capital |
| 10,204,368 | 9,024,065 | 11,352,858 | 10,204,368 | Statutory reserves |
| 9,504,182 | 18,916,233 | 5,592,121 | 9,028,265 | Retained earnings |
| 117,563,761 | 81,099,499 | 128,604,076 | 91,094,389 | Other reserves |
| 195,421,932 | 163,605,291 | 203,698,676 | 164,893,979 | **Total equity attributable to equity holders of the Group/Bank** |
| – | – | – | – | Non-controlling Interest |
| 195,421,932 | 163,605,291 | 203,698,676 | 164,893,979 | **Total equity** |
| 2,320,062,357 | 1,930,117,872 | 2,425,798,032 | 1,949,213,171 | **Total liabilities and equity** |
| 596,546,623 | 672,716,776 | 549,421,699 | 682,399,783 | Contingent liabilities and commitments |
| 157.63 | 137.00 | 164.30 | 138.08 | Net assets value per ordinary share (Rs.) |
| | | | | **Quarterly growth (%)** |
| -5.14 | 2.87 | -0.50 | 3.02 | Financial assets at amortised cost – Loans and advances to banks & Loans and advances to other customers |
| 5.65 | 3.05 | 6.78 | 1.61 | Financial Liabilities at amortised cost – Due to depositors |
| -0.61 | 1.43 | 4.56 | 0.99 | Total assets |

# Decade at a Glance

| *As at December 31, Rs. Mn.* | CAGR % | SLFRSs 2022 | 2021 | 2020 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | 149,394 | 68,078 | 50,251 |
| Balances with Central Banks | | 66,493 | 52,898 | 110,971 |
| Placements with banks | | 95,900 | 11,585 | 15,939 |
| Securities purchased under resale agreements | | 1,517 | 3,000 | – |
| Derivative financial assets | | 8,345 | 3,245 | 2,637 |
| Other financial instruments – Held for trading | | – | – | – |
| Financial assets recognised through profit or loss – Measured at fair value | | 24,873 | 23,436 | 35,189 |
| Loans and receivables to banks | 12.84 | – | – | – |
| Financial assets at amortised cost – Loans and advances to banks | | – | – | 780 |
| Loans and receivables to other customers | | – | – | – |
| Financial assets at amortised cost – Loans and advances to other customers | | 1,130,443 | 1,014,619 | 896,845 |
| Financial investments – Held to maturity | | – | – | – |
| Financial investments – Loans and receivables | | – | – | – |
| Financial assets at amortised cost – Debt and other financial instruments | | 725,935 | 369,418 | 292,728 |
| Financial investments – Available for sale | | – | – | – |
| Financial assets measured at fair value through other comprehensive income | | 117,056 | 335,463 | 278,461 |
| **Total financial assets** | | 2,319,956 | 1,881,742 | 1,683,801 |
| Investments in subsidiaries | | 5,808 | 5,808 | 5,808 |
| Investment in associate | | 44 | 44 | 44 |
| Property, plant & equipment and right-of-use assets | | 25,425 | 23,075 | 23,212 |
| Intangible assets | | 3,563 | 1,725 | 1,233 |
| Leasehold property | | – | – | – |
| Deferred tax assets | | 30,301 | 9,793 | 2,500 |
| Other assets | | 40,699 | 27,024 | 19,620 |
| **Total assets** | 16.84 | 2,425,798 | 1,949,213 | 1,736,218 |
| **Liabilities** | | | | |
| Due to banks | | 65,130 | 73,777 | 87,451 |
| Derivative financial liabilities | | 2,881 | 2,092 | 1,501 |
| Securities sold under repurchase agreements | | 97,726 | 151,912 | 91,438 |
| Due to other customers/deposits from customers | 17.23 | – | – | – |
| Financial liabilities at amortised cost – Due to depositors | | 1,914,359 | 1,443,093 | 1,265,966 |
| Other borrowings | | – | – | – |
| Financial liabilities at amortised cost – Other borrowings | | 16,150 | 32,587 | 54,556 |
| Current tax liabilities | | 24,475 | 9,294 | 6,778 |
| Deferred tax liabilities | | – | – | – |
| Other provisions | | – | – | – |
| Other liabilities | | 39,861 | 33,211 | 33,038 |
| Due to subsidiaries | | 115 | 49 | 97 |
| Subordinated liabilities | | 61,401 | 38,303 | 38,247 |
| **Total liabilities** | | 2,222,099 | 1,784,319 | 1,579,072 |
| **Equity** | | | | |
| Stated capital | | 58,150 | 54,567 | 52,188 |
| Statutory reserves | | 11,353 | 10,204 | 9,024 |
| Retained earnings | | 5,592 | 9,028 | 7,596 |
| Other reserves | | 128,604 | 91,094 | 88,338 |
| **Total liabilities and equity** | 16.84 | 2,425,798 | 1,949,213 | 1,736,218 |
| Contingent liabilities and commitments | | 549,422 | 682,400 | 728,712 |

*CAGR – Compound Annual Growth Rate*

| SLFRSs | | LKASs | | | | |
|---|---|---|---|---|---|---|
| 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| | | | | | | |
| 52,535 | 39,534 | 33,225 | 30,194 | 20,044 | 20,592 | 14,262 |
| 39,461 | 54,385 | 44,801 | 43,873 | 28,221 | 19,634 | 18,432 |
| 24,527 | 19,899 | 17,633 | 11,718 | 17,194 | 14,508 | 4,132 |
| 13,148 | 9,514 | – | – | 8,002 | 41,198 | 8,946 |
| 1,831 | 7,910 | 2,335 | 1,053 | 4,118 | 460 | 838 |
| – | – | 4,411 | 4,988 | 7,656 | 6,327 | 6,379 |
| 21,468 | 5,520 | – | – | – | – | – |
| – | – | 641 | 624 | 601 | 551 | 546 |
| 758 | 763 | – | – | – | – | – |
| – | – | 737,447 | 616,018 | 508,115 | 405,431 | 353,062 |
| 884,646 | 861,100 | – | – | – | – | – |
| – | – | 63,563 | 60,981 | – | – | – |
| – | – | 48,712 | 51,824 | 57,724 | 50,436 | 48,943 |
| 101,145 | 83,855 | – | – | – | – | – |
| – | – | 154,714 | 160,023 | 204,244 | 214,208 | 131,757 |
| 197,568 | 176,507 | – | – | – | – | – |
| 1,337,087 | 1,258,987 | 1,107,482 | 981,296 | 855,919 | 773,345 | 587,297 |
| 5,011 | 4,264 | 3,066 | 2,435 | 1,237 | 1,211 | 289 |
| 44 | 44 | 44 | 44 | 44 | 44 | 44 |
| 20,507 | 15,301 | 14,635 | 10,308 | 9,969 | 9,953 | 8,387 |
| 1,080 | 906 | 777 | 641 | 466 | 439 | 468 |
| – | 72 | 73 | 74 | 74 | 75 | 76 |
| 294 | – | – | 964 | – | – | – |
| 23,323 | 23,911 | 17,297 | 16,439 | 12,096 | 10,543 | 9,426 |
| 1,387,346 | 1,303,485 | 1,143,374 | 1,012,201 | 879,805 | 795,610 | 605,987 |
| | | | | | | |
| 51,506 | 50,101 | 57,121 | 67,609 | 30,319 | 25,261 | 14,194 |
| 1,495 | 8,022 | 3,678 | 1,515 | 1,891 | 1,193 | 1,412 |
| 51,220 | 49,104 | 49,677 | 69,867 | 112,385 | 124,564 | 45,519 |
| – | – | 850,128 | 739,563 | 624,102 | 529,361 | 451,153 |
| 1,053,308 | 983,037 | – | – | – | – | – |
| – | – | 23,786 | 9,270 | 9,986 | 11,637 | 8,654 |
| 23,249 | 25,362 | – | – | – | – | – |
| 4,968 | 6,566 | 4,144 | 3,441 | 3,002 | 1,998 | 1,759 |
| – | 646 | 3,275 | – | 231 | 2,574 | 1,563 |
| – | – | – | 2 | 2 | 2 | 2 |
| 30,497 | 24,208 | 19,225 | 17,710 | 15,547 | 17,444 | 9,827 |
| 54 | 41 | 75 | 20 | 26 | 19 | 16 |
| 37,887 | 37,992 | 25,166 | 24,850 | 11,973 | 11,045 | 10,944 |
| 1,254,184 | 1,185,079 | 1,036,275 | 933,847 | 809,464 | 725,098 | 545,043 |
| | | | | | | |
| 40,917 | 39,148 | 37,144 | 24,978 | 23,255 | 21,458 | 19,587 |
| 8,205 | 7,354 | 6,477 | 5,648 | 4,922 | 4,327 | 4,035 |
| 5,144 | 5,063 | 4,987 | 4,464 | 4,389 | 4,258 | 4,233 |
| 78,896 | 66,841 | 58,491 | 43,264 | 37,775 | 40,469 | 33,089 |
| 1,387,346 | 1,303,485 | 1,143,374 | 1,012,201 | 879,805 | 795,610 | 605,987 |
| 579,999 | 658,722 | 564,795 | 498,305 | 521,232 | 352,453 | 295,452 |

| *For the year ended December 31, Rs. Mn.* | CAGR % | SLFRSs 2022 | 2021 | 2020 |
|---|---|---|---|---|
| **Operating results** | | | | |
| Gross income | 15.82 | 275,444 | 160,886 | 149,711 |
| Interest income | | 218,327 | 130,443 | 122,330 |
| Interest expense | | (136,583) | (65,832) | (72,759) |
| Foreign exchange profit | | 31,120 | 10,589 | 8,338 |
| Net Commission and other income | | 20,024 | 16,195 | 17,031 |
| Operating expenses, impairment and taxes on financial services | | (110,290) | (59,394) | (51,429) |
| Profit before tax | 4.69 | 22,598 | 32,001 | 23,511 |
| Income tax expense | | 372 | (8,395) | (7,138) |
| Profit for the year | 8.57 | 22,970 | 23,606 | 16,373 |
| **Ratios** | | | | |
| Return on average-shareholders' funds (%) | | 12.46 | 14.66 | 11.28 |
| Income growth (%) | | 71.20 | 7.46 | 0.68 |
| Return on average assets (%) | | 1.05 | 1.28 | 1.05 |
| Ordinary share dividend cover (times) | | 4.12 | 2.64 | 2.34 |
| Advances to deposits and refinance (%) | | 63.30 | 73.54 | 72.96 |
| Property, plant and equipment and intangible assets to shareholders' funds (%) | | 14.23 | 15.04 | 15.56 |
| Total assets to shareholders' funds (times) | | 11.91 | 11.82 | 11.05 |
| Capital funds to liabilities including contingent liabilities (%) | | 7.35 | 6.68 | 6.81 |
| Cost/income ratio (%) | | 29.22 | 37.97 | 39.96 |
| Liquid assets ratio – Domestic Banking Unit (DBU) (%) | | 35.01 | 38.73 | 44.99 |
| Liquid assets ratio – Offshore Banking Centre (OBC) (%) | | 32.37 | 36.39 | 32.70 |
| (As specified in the Banking Act No. 30 of 1988) | | | | |
| Group capital adequacy (%) (under Basel II) Tier I | | N/A | N/A | N/A |
| Tier I & II | | N/A | N/A | N/A |
| Group capital adequacy (%) (under Basel III) | | | | |
| Common equity Tier I capital ratio | | 11.34 | 12.05 | 13.36 |
| Tier I capital ratio | | 11.34 | 12.05 | 13.36 |
| Total capital ratio | | 14.51 | 15.70 | 16.88 |
| **Share information** | | | | |
| Market value of a voting ordinary share (Rs.) | | 50.20 | 79.30 | 80.90 |
| Earnings per share (Rs.) | | 19 | 19 | 15 |
| Dividend per share (Rs.) | | 4.50 | 7.50 | 6.50 |
| Price earnings ratio (times) | | 3 | 4 | 5 |
| Net assets value per share (Rs.) | | 164 | 138 | 135 |
| Earnings yield (%) | | 37 | 24 | 19 |
| Gross dividends (Rs. Bn.) to ordinary shareholders | | 5.58 | 8.96 | 7.59 |
| Dividend payout ratio (%) – Cash | | – | 22 | 32 |
| Total dividend payout ratio (%) | | 24 | 38 | 46 |
| **Other information** | | | | |
| Number of employees | | 5,121 | 5,072 | 5,057 |
| Number of delivery points – Sri Lanka | 1.71 | 269 | 268 | 268 |
| Number of delivery points – Bangladesh | | 20 | 19 | 19 |
| Number of automated teller machines | 5.03 | 934 | 921 | 906 |

*CAGR – Compounded Annual Growth Rate*

| SLFRSs | | LKASs | | | | |
|---|---|---|---|---|---|---|
| 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| | | | | | | |
| 148,706 | 138,049 | 114,357 | 93,143 | 77,868 | 72,753 | 73,736 |
| 127,780 | 117,466 | 103,034 | 80,738 | 66,030 | 61,832 | 62,764 |
| (80,571) | (72,524) | (64,011) | (47,915) | (35,685) | (34,610) | (36,879) |
| 6,726 | 7,900 | 588 | 2,326 | 2,877 | 1,481 | 1,996 |
| 12,082 | 10,845 | 9,169 | 8,951 | 8,059 | 8,677 | 8,349 |
| (43,678) | (38,096) | (25,597) | (24,049) | (24,138) | (21,644) | (21,720) |
| 22,339 | 25,591 | 23,183 | 20,051 | 17,143 | 15,736 | 14,510 |
| (5,314) | (8,047) | (6,602) | (5,539) | (5,240) | (4,556) | (4,065) |
| 17,025 | 17,544 | 16,581 | 14,512 | 11,903 | 11,180 | 10,445 |
| | | | | | | |
| 13.54 | 15.56 | 17.88 | 19.52 | 16.90 | 17.01 | 18.40 |
| 7.72 | 20.72 | 24.10 | 19.62 | 7.03 | 0.96 | 16.31 |
| 1.27 | 1.43 | 1.54 | 1.53 | 1.42 | 1.60 | 1.87 |
| 2.55 | 2.67 | 2.62 | 2.25 | 2.09 | 1.99 | 1.89 |
| 86.74 | 86.96 | 86.07 | 82.69 | 80.84 | 75.89 | 77.48 |
| 16.21 | 13.75 | 14.46 | 14.07 | 14.94 | 14.85 | 14.65 |
| 10.42 | 11.01 | 10.68 | 12.92 | 12.51 | 11.28 | 9.94 |
| 7.26 | 6.42 | 6.69 | 5.47 | 5.29 | 6.54 | 7.25 |
| 49.41 | 46.35 | 51.08 | 51.06 | 48.92 | 49.26 | 45.59 |
| 30.42 | 24.47 | 27.28 | 27.19 | 26.24 | 33.15 | 33.66 |
| 25.25 | 30.20 | 30.95 | 30.19 | 49.13 | 31.43 | 29.38 |
| | | | | | | |
| N/A | N/A | N/A | 11.59 | 11.55 | 13.07 | 13.30 |
| N/A | N/A | N/A | 16.01 | 14.28 | 16.22 | 16.93 |
| | | | | | | |
| 12.40 | 11.43 | 12.12 | – | – | – | – |
| 12.40 | 11.43 | 12.12 | – | – | – | – |
| 16.18 | 15.62 | 15.70 | – | – | – | – |
| | | | | | | |
| 95.00 | 115.00 | 135.80 | 145.00 | 140.20 | 171.00 | 120.40 |
| 17 | 17 | 17 | 16 | 13 | 13 | 12 |
| 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| 5 | 7 | 8 | 9 | 10 | 13 | 10 |
| 130 | 117 | 108 | 88 | 80 | 81 | 72 |
| 17 | 15 | 13 | 11 | 10 | 8 | 10 |
| 6.68 | 6.57 | 6.48 | 5.77 | 5.70 | 5.70 | 5.52 |
| 27 | 26 | 26 | 28 | 33 | 35 | 37 |
| 39 | 37 | 38 | 40 | 48 | 50 | 53 |
| | | | | | | |
| 5,062 | 5,027 | 4,982 | 4,987 | 4,951 | 4,852 | 4,730 |
| 268 | 266 | 261 | 255 | 246 | 239 | 235 |
| 19 | 19 | 19 | 19 | 18 | 18 | 18 |
| 885 | 850 | 775 | 677 | 640 | 625 | 604 |

# Group Structure

| | Local Subsidiaries | | | |
|---|---|---|---|---|
| | COMMERCIAL DEVELOPMENT COMPANY PLC | CBC TECH SOLUTIONS LTD. | CBC FINANCE LIMITED | COMMERCIAL INSURANCE BROKERS (PVT) LTD. |
| Incorporated on | March 14, 1980 in Sri Lanka | February 17, 2003 in Sri Lanka | February 18, 1987 in Sri Lanka | August 17, 1987 in Sri Lanka |
| Bank's Holding | **90.00%** | **100%** | **100%** | **60.00%** |
| Principal Business Activities | Property development and provision of other utility services | Providing Information & Communication Technology (ICT) related products, services and solutions to corporate sector | Granting of leasing & hire purchase facilities, mortgage loans and other loan facilities. Accepting public deposits | Insurance Brokering |
| Business Address | 4th Floor, No. 8-4/2, York Arcade Building, Leyden Bastian Road, Colombo 01. | "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01. | No. 187, Katugastota Road, Kandy. | No. 347, Dr Colvin R De Silva Mawatha, Colombo 02. |
| Contact Numbers | +94 11 244 7300 | +94 11 257 4417<br>+94 11 257 4407 | +94 81 221 3498<br>+94 81 220 0272 | +94 11 760 0600 |
| **Board of Directors** | | | | |
| Chairman | B R L Fernando | Prof A K W Jayawardane | K G D D Dheerasinghe | M P Jayawardena |
| Managing Director/ Chief Executive Officer | S C U Manatunge | P K A S K Gunawardhana | D M U N Dissanayake | T D Thomas |
| Chief Executive Officer | R N De Silva (*) | K Mediwake (*) | | |
| Director | A L Gooneratne | K D N Buddhipala | S Muhseen | D M D K Thilakaratne |
| Director | A T P Edirisinghe | K S A Gamage | Dr (Ms) J P Kuruppu | U I S Tillakawardana |
| Director | L D A Jayasinghe | | S M S C Jayasuriya | D J D P Hettiarachchi |
| Director | U I S Tillakawardana | | D M D S S Bandara | W M N S K Weerapana |
| Director | | | L H Munasinghe | L W P Indrajith |
| Director | | | M P Dharmasiri | |
| Director | | | | |
| Company Secretary | L W P Indrajith | M P Dharmasiri | Ms H D U O Gunasekara | Ms Y A Kularathna |

*(*) Not a Board Member*

## Summary of financial information

| | 2022 Rs. Mn. | 2021 Rs. Mn. | 2022 Rs. Mn. | 2021 Rs. Mn. | 2022 Rs. Mn. | 2021 Rs. Mn. | 2022 Rs. Mn. | 2021 Rs. Mn. |
|---|---|---|---|---|---|---|---|---|
| Total assets | **4,055.082** | 3,785.349 | **626.869** | 461.022 | **10,955.136** | 10,311.545 | **758.701** | 722.908 |
| Total liabilities | **637.659** | 457.986 | **82.845** | 58.643 | **7,777.664** | 7,058.035 | **191.540** | 147.146 |
| Net assets | **3,417.423** | 3,327.363 | **544.024** | 402.379 | **3,177.472** | 3,253.510 | **567.161** | 575.762 |
| Total revenue | **631.128** | 632.287 | **647.407** | 354.303 | **1,636.161** | 1,264.114 | **139.075** | 204.239 |
| Profit before tax | **401.289** | 427.265 | **186.761** | 156.761 | **9.726** | 141.384 | **43.809** | 35.784 |
| Profit after tax | **224.377** | 401.506 | **171.724** | 181.134 | **39.583** | 51.612 | **31.349** | 30.286 |
| Dividend per share (Rs.) | **7.00** | 6.50 | **50.00** | 50.00 | **–** | – | **25.00** | 33.33 |

| | Local Associate | Foreign Subsidiaries | |
|---|---|---|---|
| | EQUITY INVESTMENTS LANKA LIMITED | COMMERCIAL BANK OF MALDIVES PRIVATE LIMITED | CBC MYANMAR MICROFINANCE COMPANY LIMITED |
| Incorporated on | August 8, 1990 in Sri Lanka | March 24, 2015 in Maldives | April 4, 2017 in Myanmar |
| Bank's Holding | 22.92% | 55% | 100% |
| Principal Business Activities | Venture Capital Financing | Banking | Microfinancing |
| Business Address | No. 108 A, 2/1, Maya Avenue, Colombo 06. | H. Filigasdhoshuge, Ameer Ahmed Magu, K. Male 20066, Maldives. | No. 15, Office Street, Ward 4, Lewe Township, Nay Pyi Taw, Myanmar. |
| Contact Numbers | +94 11 250 7605<br>+94 11 537 3745<br>+94 11 537 3746 | +96 0333 2668 | +95 67 80 30566 |
| **Board of Directors** | | | |
| Chairman | M J C Amarasuriya | Ahmed Nazeer | K G D D Dheerasinghe |
| Managing Director/ Chief Executive Officer | Deshamanya S E Captain | D D J Rajapakse | D K S S Piyaratne |
| Chief Executive Officer | | | |
| Director | J D Peiris | S C U Manatunge | D J D P Hettiarachchi |
| Director | J B Abu Baker | S Prabagar | G Sivasubramaniam |
| Director | W I Arambage | U I S Tillakawardana | S Prabagar |
| Director | K C Vignarajah | Dr Ibrahim Vishan | |
| Director | M H Wijewaradene | Ms Fareeha Shareef | |
| Director | | Ms Aishath Zahira | |
| Director | | J A D J C Nanayakkara | |
| Company Secretary | Mrs R R Dunuwille | Ms Aminath Nashadil | D K S S Piyaratne |

| | 2022 Rs. Mn. | 2021 Rs. Mn. | 2022 Rs. Mn. | 2021 Rs. Mn. | 2022 Rs. Mn. | 2021 Rs. Mn. |
|---|---|---|---|---|---|---|
| Total assets | **254.460** | 374.086 | **69,661.744** | 30,042.751 | **602.206** | 394.538 |
| Total liabilities | **28.180** | 125.262 | **61,350.362** | 26,258.969 | **182.927** | 33.976 |
| Net assets | **226.280** | 248.824 | **8,311.383** | 3,783.782 | **419.279** | 360.562 |
| Total revenue | **24.697** | 41.059 | **3,408.935** | 1,529.550 | **92.660** | 52.965 |
| Profit before tax | **(16.263)** | 8.272 | **1,612.825** | 568.352 | **(138.585)** | (37.807) |
| Profit after tax | **(16.263)** | 8.272 | **1,232.231** | 426.986 | **(137.619)** | (30.370) |
| Dividend per share (Rs.) | **–** | 1.00 | **–** | – | **–** | – |

# Investor relations

Dear Stakeholder,

We would like to express our sincere gratitude to our loyal investors for choosing to invest in the capital of the Bank, both equity and debt, and assure you that we are constantly working to optimise returns on your investments through prudent and sustainable growth and value creation. We recognise that it is our duty to provide you with timely, relevant, and balanced view of the Bank's fundamentals in terms of operational results, financial position, and cash flows so that you can make wise and well-informed decisions. We are one of the four Domestic Systemically Important Banks (D-SIBs) and the only private sector bank in Sri Lanka designated by the Central Bank of Sri Lanka as a higher-tier D-SIB and also as the largest private sector Bank in the country. In this regard, we are confident that we were able to meet the expectations of our valued investors despite the unprecedented operating environment and the unfavourable macro-economic conditions that defined the year 2022. We would like to pledge to uphold our commitment to fulfilling our obligations in the future in the best interests of our investors. We are confident that the information provided in this Integrated Annual Report will help investors to better understand the Bank's core competencies, boost trust, and foster loyalty, bringing together a loyal group of investors who takes a long term view of sustainable value creation for their investment.

The Bank continuously aims to foster effective two-way communication with our valued investors, promoting mutual trust and confidence, while ensuring the rights conferred on the investors by various statutes to address the material matters as identified therein, as further explained in the section on *"Connecting with stakeholders"* on pages 36 to 39, We believe that these initiatives have given the Bank the opportunity to actively engage with our investors in a consistent, extensive and effective manner, often going beyond the legal requirements and in the underlying spirit, promoting its reputation.

The Bank deploys a multi-faceted approach to engage and interact with its stakeholders. This includes the Annual Report, which serves as the Bank's primary investor communications tool as well as the Annual General Meetings and Extra-Ordinary General Meetings, which are called as needed giving the investor community opportunities to engage and interact with the Bank. As in the past, the Bank took the initiative to produce an integrated Annual Report in a concise manner this year as well, as can be observed across each section of this Report. The insightful feedback provided by our shareholders in response to previous surveys and comments has been carefully taken into account. In order to seek your useful recommendations and opinions for further improvements, we have made arrangements to include a stakeholder feedback form in this year's Annual Report in order to seek your valuable suggestions and opinion for further improvements. Your feedback is very important to us and we take them very seriously. We make every effort to improve our Annual Report each year by considering your valuable suggestions and incorporating them into our strategies for long-term value creation to all our stakeholders. These engagements, in our opinion, will undoubtedly assist our investors in gaining insights into the Bank's performance, strategic direction, governance mechanism in place, risk management strategies adopted and the Sustainability Framework.

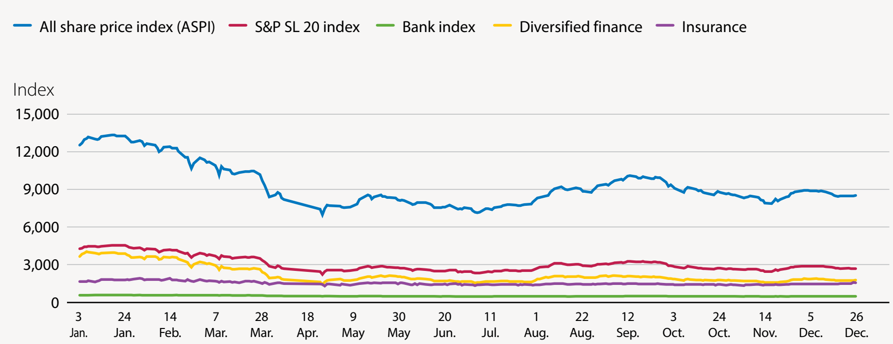
Financial information relevant to investors can be found in our website; *https://www.combank.lk/investors* is another popular channel available for stakeholders, where both a PDF and an interactive version of the Bank's Annual Report have been hosted. The Bank makes sure that its pages are regularly updated along with the rest of the site's content.

Figure – 19: **Modes of engagement with investors**

- Annual reports and Annual General Meeting
- Interim Financial Statements
- Investor presentations
- Extraordinary General Meetings
- Press conferences and releases
- One-to-one discussions
- Announcements to CSE
- Corporate website
- Feedback surveys

We are confident that despite the unprecedented economic and operating environment that persisted throughout the year due to a multitude of global and local developments detailed in *Our Operating Context and Outlook*, the Bank's efforts to have effective communication and active engagement with significant stakeholder groups have made the Bank's shares an attractive investment proposition.

Graph – 35: **Performance of the Colombo Stock Exchange and the Banking Sector in 2022**



### Performance of the Colombo Stock Exchange (CSE) in 2022

Contrary to the year 2021, a record-breaking year for the CSE, 2022 saw a notable decline in the performance of the CSE during most part of the year. The decline was primarily due to effect of COVID-19, followed by the social unrest and the unstable political environment. Consequently, the benchmark All Share Price Index (ASPI) dropped to 8,490 points by the end of 2022 from 12,226 points recorded at the end of 2021, recording a drop of 3,736 points or 30.56%. The S&P SL20 index followed the ASPI and dropped to 2,636 points by the end of 2022, from 4,232 points at the end of 2021, recording a drop of 1,596 points or 37.72%. The market capitalisation also recorded a sharp drop, falling from Rs. 5.490 Tn. at the end of 2021 to Rs. 3.847 Tn. at the end of 2022, a drop of 29.93%.

### Performance of the Banking Sector and Commercial Bank shares in 2022

Given the adverse performance of the ASPI and the S&P SL20 indices during 2022, as shown in the above graph, the banking sector shares too displayed subpar performance primarily because of the perceived sector-specific uncertainties, which directly affected the performance of banks. They included many relief programs offered to both affected individuals and corporate customers including the extension of moratoriums by the regulator, lack of appetite for lending by banks for obvious reasons, restrictions imposed on the payment of cash dividends by the regulator, the Government decision to increase VAT on Financial Services to 18% from 15% effective from January 2022, Corporate Income Tax rates effective from July 2022 and the introduction of Social Security Contribution Levy of 2.5% effective from October 2022. These factors contributed to the drop in the share price of the Bank's ordinary voting shares, which traded at a discount to its book value at 0.31 times at the end of 2022 (0.57 times at the end of 2021). However, it continued to remain the highest among the peers in the banking sector. Following the trend recorded in the ASPI and the S&P SL20 indices, the Bank index too dropped by 36.68% in 2022 and stood at 386 points at the end of 2022 compared to 609 points at the end 2021.

As at December 31, 2022, the Bank's public holding (free float) was 99.81% in voting shares (up from 99.77% in 2021) and 99.88% in non-voting shares (up from 99.86% in 2021), while its float-adjusted market capitalisation (compliant under option-1 of the Rules on minimum public holding requirement of the CSE) was Rs. 61.476 Bn. (down from Rs. 93.981 Bn. in 2021). As shown in Tables 34 and 35 on page 130, investors are given a convenient "enter and exit" mechanism even though the number of share transactions and the number of shares traded in the CSE recorded a notable decline. It is important to note that despite the difficult circumstances encountered in 2022, the number of shareholders holding both voting and non-voting shares of the Bank during the year stayed roughly at the same levels as depicted in Table 37 on page 131 This shows the confidence placed by investors in the Bank's shares.

### Compliance report on the contents of the Annual Report in terms of the Listing Rules of the CSE

We are pleased to inform you that the Bank has fully complied with all relevant provisions of Section 7.6 of the Listing Rules of the CSE regarding the information to be included in an entity's Annual Report and financial statements.

Table 27 given below provides a complete list of disclosure requirements and references to the relevant sections of this Annual Report where the Bank's compliance with the required disclosures are made together with the relevant page numbers.

The pages that follow contain information on the performance of the Bank's listed securities.

Table – 27: **Compliance with requirements of the Section 7.6 of the Listing Rules of the CSE**

| Rule No. | Disclosure requirement | Section/Reference | Page/s |
|---|---|---|---|
| 7.6 (i) | Names of persons who during the financial year were Directors of the Bank | Governance and Risk Management | 138 to 145 |
| 7.6 (ii) | Principal activities of the Bank and its subsidiaries during the year and any changes therein | Note 1.3 to the Financial Statements<br>Group Structure | 249 and 250<br>122 and 123 |
| 7.6 (iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held | Item 4.2 of the "Investor Relations" | 131 and 132 |
| 7.6 (iv) | The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Bank complies with the minimum public holding requirement, in respect of voting ordinary shares.<br>The public holding percentage (%) in respect of non-voting ordinary shares. | Item 4.3 of the "Investor Relations" | 132 |
| 7.6 (v) | A statement of each Directors' holding and Chief Executive Officer's holding in shares of the Bank at the beginning and end of the financial year | Item 4.4 of the "Investor Relations" | 132 |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors of the Bank | Item 5 of the "Investor Relations" | 133 |

| Rule No. | Disclosure requirement | Section/Reference | Page/s |
|---|---|---|---|
| 7.6 (vii) | Details of material issues pertaining to employees and industrial relations of the Bank | Item 6 of the "Investor Relations" | 133 |
| 7.6 (viii) | Extents, locations, valuations, and the number of buildings of the Bank's land holdings and investment properties | Note 38.5 (a) and (b) to the Financial Statements | 312 to 317 |
| 7.6 (ix) | Number of shares representing the Bank's stated capital | Note 51 to the Financial Statements<br>Item 7 of the "Investor Relations" | 338<br>134 and 135 |
| 7.6 (x) | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings as at the end of the year | Item 4.5 of the "Investor Relations" | 133 |
| 7.6 (xi) | Ratios and market price information: | | |
| | Equity – Dividend per share, dividend payout ratio, net asset value per share, market value per share – highest and lowest values recorded during the financial year and the market value as at the end of financial year – Highest price, lowest price, last traded price | Financial Highlights<br>Items 2, 3 and 11 of the "Investor Relations" | 14, 128, 130 and 137 |
| | Debt – Interest rate of comparable Government Securities, debt/equity ratio, interest cover and quick asset ratio, market prices and yield during the year | Items 10 and 11 of the "Investor Relations" | 136 and 137 |
| | Any changes in credit rating (for the Bank or any other instrument issued by the Bank) | Item 12 of the "Investor Relations" | 137 |
| 7.6 (xii) | Significant changes in the Bank's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value | Note 38.5 (b) to the Financial Statements | 313 to 317 |
| 7.6 (xiii) | Details of funds raised through an Initial Public Offering and/or a further issue of securities during the year | Note 51 and 51.1 to the Financial Statements | 338 |
| | a. the manner in which the funds of such issue/s have been utilised in conformity with the format provided by the Exchange from time to time; | The Bank did not raise funds through a share issue during the year. | |
| | b. if any shares or debentures have been issued, the number, class and consideration received and the reason for the issue; and, | Note 50 to the Financial Statements for the details of debentures issued during the year. | 336 and 337 |
| | c. any material change in the use of funds raised through an issue of Securities. | Item 10 of the "Investor Relations" | 136 |
| | In the event the funds raised through the Initial Public Offering and/or the further issue of securities (as applicable) have been fully utilised by the Bank as disclosed in the Prospectus and/or Circular to shareholders between two financial periods, the entity shall disclose such fact in the immediate succeeding Annual Report or the interim financial statement, whichever is published first. | | |

| Rule No. | Disclosure requirement | Section/Reference | Page/s |
|---|---|---|---|
| 7.6 (xiv) | a. Information in respect of Employee Share Option Schemes (ESOS)<br>– The number of options granted to each category of employees during the financial year.<br>– Total number of options vested but not exercised by each category of employees during the financial year.<br>– Total number of options exercised by each category of employees and the total number of shares arising therefrom during the financial year.<br>– Options cancelled during the financial year and the reasons for such cancellation.<br>– The exercise price. | Note 52.1 to the Financial Statements | 338 |
| | – A declaration by the Directors of the Bank confirming that the Bank or any of its subsidiaries has not, directly or indirectly, provided funds for the ESOS. | Item 24 of the Statement of Compliance | 191 |
| | b. Information in respect of Employee Share Purchase Schemes (ESPS)<br>– The total number of shares issued under the ESPS during the financial year<br>– The number of shares issued to each category of employees during the financial year<br>– The price at which the shares were issued to the employees<br>– A declaration by the Directors of the Bank confirming that the Bank or any of its subsidiaries has not, directly or indirectly, provided funds for the ESPS | Not applicable as the Bank does not have Employee Share Purchase Schemes | |
| 7.6 (xv) | Disclosures pertaining to corporate governance practices in terms of Rules 7.10.3, 7.10.5 (c) and 7.10.6 (c) of Section 7 of the Rules. | Not applicable since the Bank received an exemption in terms of Section 7.10 (c) of the Listing Rules | |
| 7.6 (xvi) | Related party transactions exceeding 10% of the equity or 5% of the total assets of the Bank as per Audited Financial Statements, whichever is lower | The Bank did not have any related party transactions exceeding this threshold during the year 2022 and as at end 2022 (Note 62.6 to the Financial Statements) | 356 |
| | Details of investments in a related party and/or amounts due from a related party to be set out separately<br>The details shall include, as a minimum:<br>i. The date of the transaction;<br>ii. The name of the related party;<br>iii. The relationship between the Bank and the related party;<br>iv. The amount of the transaction and terms of the transaction;<br>v. The rationale for entering into the transaction. | Item 20.3 of the Statement of Compliance | 190 |

## 1. Listed securities of the Bank

The Bank's ordinary shares (both voting and non-voting) are listed on the Main Board of the CSE under the ticker symbol "COMB". All debentures issued are also listed on the CSE. (Refer Table 28 on page 128 for a summary of listed securities of the Bank).

The Business section of most daily newspapers, including the Daily News, Daily FT, The Island and Daily Mirror carry a summary of trading activity and the daily prices of shares and debentures traded (if any) using the abbreviation of Commercial Bank or COMB.

Table – 28: **Summary of listed securities of the Bank**

| | NUMBER IN ISSUE AS AT | | STOCK SYMBOL |
|---|---|---|---|
| | **December 31, 2022** | December 31, 2021 | |
| **Equity** | | | |
| Ordinary shares – Voting | **1,167,236,442** | 1,124,480,528 | COMB-N0000 |
| Ordinary shares – Non-voting | **72,541,605** | 69,740,771 | COMB-X0000 |
| **Debt** | | | |
| Fixed rate Debentures March 2016/26 | **17,490,900** | 17,490,900 | COMB-BD-08/03/26-C2342-11.25% |
| Fixed rate Debentures October 2016/26 | **19,282,000** | 19,282,000 | COMB-BD-27/10/26-C2359-12.25% |
| Fixed rate Debentures July 2018/23 | **83,938,400** | 83,938,400 | COMB-BD-22/07/23-C2404-12.00% |
| Fixed rate Debentures July 2018/28 | **16,061,600** | 16,061,600 | COMB-BD-22/07/28-C2405-12.50% |
| Fixed rate Debentures September 2021/26 | **42,374,700** | 42,374,700 | COMB-BD-20/09/26-C2491-09.00% |
| Fixed rate Debentures September 2021/28 | **43,580,000** | 43,580,000 | COMB-BD-20/09/28-C2492-09.50% |
| Fixed rate Debentures December 2022/27 | **67,246,800** | Issued during the year 2022 | COMB-BD-11/12/27-C2504-28.00% |
| Fixed rate Debentures December 2022/29 | **32,638,200** | | COMB-BD-11/12/29-C2503-27.00% |
| Fixed rate Debentures December 2022/32 | **115,000** | | COMB-BD-11/12/32-C2505-22.00% |

## Equity securities

Table – 29: **Features of ordinary shares**

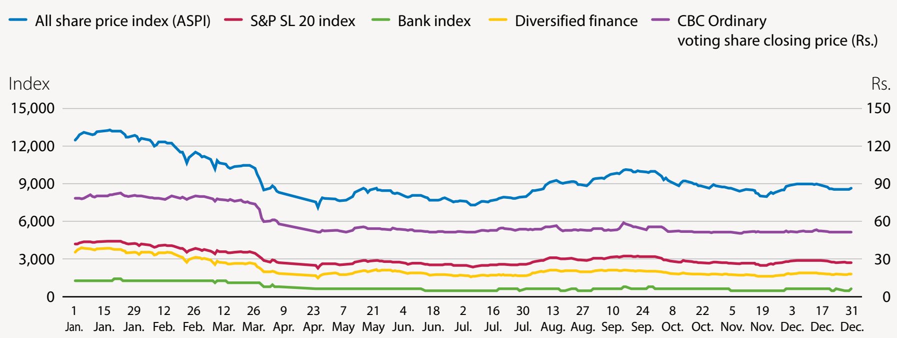
| Security type | Quoted ordinary shares |
|---|---|
| Listed exchange | Colombo Stock Exchange (CSE) – Main Board |
| Featured stock indices | All Share Price Index (ASPI) |
| | Standard & Poor's Sri Lanka 20 (S&P SL20) |
| GICS Industry Group | Banks |
| CSE stock symbol | Voting – COMB.N0000 |
| | Non-voting – COMB.X0000 |
| International Securities Identification Number (ISIN) | Voting – LK0053N00005 |
| | Non-voting – LK0053X00004 |

## 2. Performance of COMB shares and returns to shareholders

Despite the year's lacklustre market performance, investor interest in the Bank's shares persisted during the year compared to 2021 as evidenced by the increased number of shareholders in both Voting and Non-Voting Ordinary Shares (Refer table 37 on page 131).

The market price of an ordinary voting share of the Bank decreased by 36.70% (a drop of 1.98% in 2021) from Rs. 79.30 at the end of 2021 to Rs. 50.20 at the end of 2022 (Tables 31 and 32 on page 129). The Bank continued with its policy of issuing scrip dividends and Employee Share Option Plans. Market capitalisation in terms of rupees for both voting and non-voting shares stood at Rs. 61.6 Bn. (USD 167.824 Mn.) at the end of 2022 compared to Rs. 94.2 Bn. (USD 470.963 Mn.) at the end of 2021, and accounted for 1.6% of the total market capitalisation as at end of 2022 (1.72% in 2021). The Bank's shares ranked twelfth among all listed entities and first among the listed corporates in the Banking sector. During most of 2022, the movement of the prices of non-voting shares followed the trend of the voting shares.

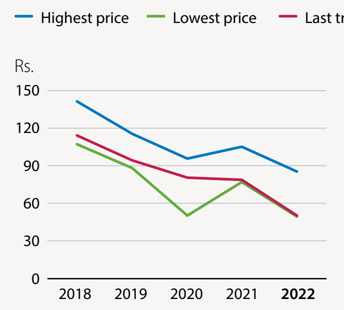
Graph – 36: **Performance of the Ordinary Shares – Voting – 2022**



### 2.1 Movement of COMB voting share price over the year Table – 30

| Month | Jan., 22 | Feb., 22 | Mar., 22 | Apr., 22 | May, 22 | Jun., 22 | Jul., 22 | Aug., 22 | Sep., 22 | Oct., 22 | Nov., 22 | Dec., 22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Highest price (Rs.) | 85.00 | 83.00 | 83.00 | 64.80 | 56.00 | 54.80 | 58.00 | 56.70 | 59.90 | 55.50 | 52.00 | 52.80 |
| Lowest price (Rs.) | 79.00 | 78.20 | 61.00 | 50.00 | 50.00 | 50.00 | 49.60 | 51.10 | 51.00 | 49.50 | 48.70 | 50.00 |
| Price at the month-end (Rs.) | 82.60 | 81.90 | 62.70 | 51.50 | 53.90 | 50.60 | 52.70 | 51.90 | 55.00 | 50.20 | 51.40 | 50.20 |

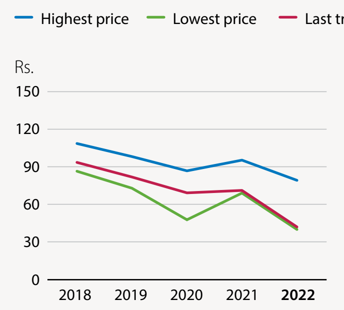
Graph – 37: **Share price movement – Ordinary Shares – Voting**




### 2.2 Share price movement of last five years Table – 31

| | 2022 Rs. | 2021 Rs. | 2020 Rs. | 2019 Rs. | 2018 Rs. |
|---|---|---|---|---|---|
| **Ordinary shares – Voting** | | | | | |
| Highest price during the year | 85.00 | 105.00 | 96.00 | 115.90 | 142.50 |
| Lowest price during the year | 48.70 | 76.90 | 50.00 | 88.60 | 107.50 |
| Last traded price | 50.20 | 79.30 | 80.90 | 95.00 | 115.00 |
| **Ordinary shares – Non-voting** | | | | | |
| Highest price during the year | 78.50 | 95.90 | 87.20 | 99.40 | 110.00 |
| Lowest price during the year | 39.40 | 69.60 | 48.00 | 74.00 | 88.00 |
| Last traded price | 41.30 | 72.00 | 70.10 | 83.00 | 95.00 |

Graph – 38: **Share price movement – Ordinary Shares – Non-voting**




### 2.3 Sustainable value for investors Table – 32

| | ORDINARY SHARES – VOTING | | | ORDINARY SHARES – NON-VOTING | | |
|---|---|---|---|---|---|---|
| | Trade date | 2022 Rs. | 2021 Rs. | Trade date | 2022 Rs. | 201 Rs. |
| Highest price | January 24, 2022 | 85.00 | | January 24, 2022 | 78.50 | |
| | January, 29 2021 | | 105.00 | January, 19 2021 | | 95.90 |
| Lowest price | November 08, 2022 | 48.70 | | August 19, 2022 | 39.40 | |
| | December 23, 2021 | | 76.90 | December 22, 2021 | | 69.60 |
| **Year-end price** | | 50.20 | 79.30 | | 41.30 | 72.00 |

### 2.4 Information on shareholders' funds and Bank's market capitalisation Table – 33

| *As at December 31,* | Shareholders' funds Rs. Bn. | Commercial Bank's market capitalisation (*) Rs. Bn. | Total market capitalisation of the CSE Rs. Bn. | Commercial Bank's market capitalisation as a percentage of CSE market capitalisation % | Commercial Bank's market capitalisation ranking Rank | Commercial Bank's market capitalisation (*) USD Mn. |
|---|---|---|---|---|---|---|
| **2022** | 204 | 62 | 3,847 | 1.60 | 12 | 167.824 |
| 2021 | 165 | 94 | 5,490 | 1.72 | 9 | 470.963 |
| 2020 | 157 | 94 | 2,961 | 3.16 | 5 | 500.902 |
| 2019 | 133 | 97 | 2,851 | 3.40 | 4 | 532.699 |
| 2018 | 118 | 115 | 2,839 | 4.05 | 3 | 628.415 |

*(*) Market capitalisation includes both voting and non-voting shares*

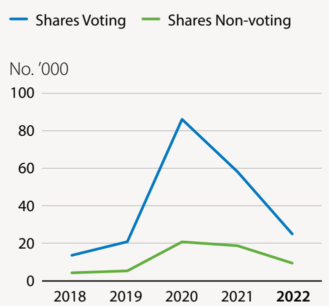
### 2.5 Number of share transactions (No.) Table – 34

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Ordinary shares – Voting | 25,271 | 58,754 | 85,914 | 21,481 | 13,364 |
| Ordinary shares – Non-voting | 10,075 | 18,827 | 21,407 | 5,452 | 4,553 |

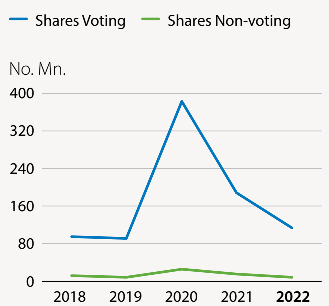
### 2.6 Number of shares traded (No. '000) Table – 35

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Ordinary shares – Voting | 114,432 | 187,853 | 385,017 | 89,289 | 95,286 |
| Ordinary shares – Non-voting | 8,355 | 15,712 | 26,614 | 5,893 | 10,637 |

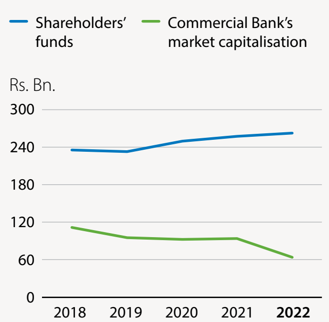
Graph – 39: **Number of share transactions**




Graph – 40: **Number of shares traded**




Graph – 41: **Shareholders' funds and Bank's market capitalisation**




## 3. Dividends

We wish to reiterate that the Bank is fully aware and understands that a declaration of a dividend is fundamental to maintaining a balance between the shareholders' expectations and the business needs of the Bank. Although the Bank has been paying interim cash dividends up to 2019, the Bank did not pay any interim cash dividends during the past three years. This was in compliance with the requirements of the Banking Act Direction No. 03 of 2021, dated May 13, 2020, the Direction No. 01 of 2021 dated January 19, 2021, the Direction No. 11 of 2021 dated July 13, 2021 and the Direction No. 02 of 2022 dated May 06, 2022, issued by the CBSL on "Restrictions on Discretionary Payments of Licensed Banks", wherein licensed banks were instructed to refrain from declaring cash dividends for financial years ended December 31, 2020, 2021 and 2022 in view of the possible adverse impact on liquidity and other key performance indicators of banks. However, as per the Banking Act Direction No. 01 of 2021, dated January 19, 2021, the Direction No. 11 of 2021 dated July 13, 2021 and the Direction No. 02 of 2022 dated May 06, 2022, issued by the CBSL on the same subject, licenced banks incorporated or established in Sri Lanka were instructed to defer payment of cash dividends until the Financial Statements for the year ended December 31, 2020 and 2021 are finalised and audited by the External Auditors.

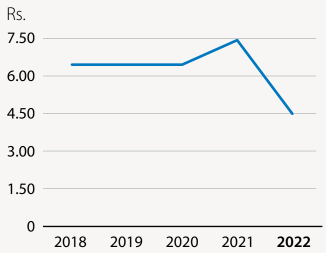
Accordingly, the Board of Directors of the Bank after giving due consideration to the requirements stipulated in the Banking Act Directions No. 01 of 2023 dated February 02, 2023 has now recommended a final dividend of Rs. 4.50 per ordinary share for both ordinary voting and non-voting shares of the Bank. This will be paid in the form of issue and allotment of new shares for both voting and non-voting shareholders of the Bank for the year ended December 31, 2022. This proposed first and final dividend for the year 2022 will be submitted for the approval of the shareholders at the 54th AGM, to be held on March 30, 2023.

(A dividend of Rs. 7.50 per share was declared and paid by the Bank for the year ended December 31, 2021. It consisted of a cash dividend of Rs. 4.50 per share and balance entitlement of Rs. 3.00 per share was satisfied in the form of an issue and allotment of new shares).

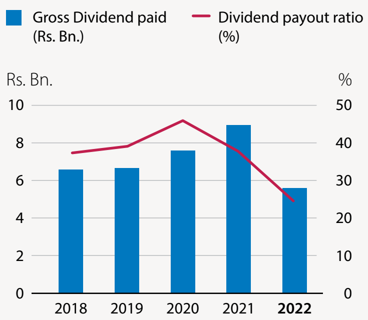
### 3.1 Dividend information Table – 36

| Dividends | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Cash – Rs. per share** | | | | | |
| First interim paid | – | – | – | 1.50 | 1.50 |
| Second interim paid | – | – | – | 3.00 | 3.00 |
| Final proposed | – | 4.50 | 4.50 | – | – |
| **Total** | – | 4.50 | 4.50 | 4.50 | 4.50 |
| **Scrip – Rs. per share** | | | | | |
| Final proposed/allotted | 4.50 | 3.00 | 2.00 | 2.00 | 2.00 |
| **Total** | 4.50 | 7.50 | 6.50 | 6.50 | 6.50 |
| **Gross dividend paid (Rs. Bn.)** | | | | | |
| Cash | – | 5.37 | 5.25 | 4.62 | 4.55 |
| Scrip | 5.58 | 3.58 | 2.34 | 2.06 | 2.02 |
| **Total** | 5.58 | 8.95 | 7.59 | 6.68 | 6.57 |
| **Dividend payout ratio (%)** | | | | | |
| Cash | – | 22.77 | 32.07 | 27.16 | 25.92 |
| Cash and shares | 24.29 | 37.94 | 46.33 | 39.23 | 37.44 |

**Graph – 42: Dividend per share**




Graph – 43: **Distribution to shareholders (Dividend paid) and Dividend pay-out ratio**




## 4. Shareholders

The Bank had 17,022 ordinary voting shareholders and 5,989 ordinary non-voting shareholders as at December 31, 2022, compared to 16,609 and 5,954 voting and non-voting shareholders as at December 31, 2021 (Table 37). With one new investor joining ranks, the percentage of ordinary voting shares held by the 20 largest shareholders as at end 2022 increased to 77.38% from 71.02% as at end 2021. Similarly, a marginal increase was witnessed in the non-voting ordinary shares held by the 20 largest shareholders from 35.87% as at end 2021 to 37.85% as at end 2022.

### 4.1 Number of ordinary shareholders Table – 37

| *As at December 31,* | **2022** | 2021 |
|---|---|---|
| Ordinary shareholders – Voting | 17,022 | 16,609 |
| Ordinary shareholders – Non-voting | 5,989 | 5,954 |
| **Total** | **23,011** | 22,563 |

### 4.2 The names, number of shares and percentages of shares held by the twenty largest shareholders [As per Rule No. 7.6 (iii) of the Listing Rules of the CSE]

**Voting shareholders** Table – 38

| *As at December 31,* | | **2022** | | 2021(*) | |
|---|---|---|---|---|---|
| Ordinary shares – Voting | | **Number of shares** | **Percentage %** | Number of shares | Percentage % |
| 1. | DFCC Bank PLC A/C 1 | 141,453,570 | 12.12 | 136,272,121 | 12.12 |
| 2. | Mr Y S H I Silva | 115,528,595 | 9.90 | 111,100,779 | 9.88 |
| 3. | Employees Provident Fund | 100,567,740 | 8.62 | 96,883,940 | 8.62 |
| 4. | Mr D P Pieris | 90,005,231 | 7.71 | 26,696,174 | 2.37 |
| 5. | CB NY S/A International Finance Corporation | 83,033,546 | 7.11 | 79,992,025 | 7.11 |
| 6. | Sri Lanka Insurance Corporation Ltd. – Life Fund | 58,905,563 | 5.05 | 56,747,851 | 5.05 |
| 7. | Melstacorp PLC | 48,290,086 | 4.14 | 46,521,219 | 4.14 |
| 8. | Mr K D D Perera | 42,894,365 | 3.67 | 35,623,143 | 3.17 |
| 9. | CB NY S/A IFC Emerging Asia Fund LP | 42,806,493 | 3.67 | 41,238,490 | 3.67 |
| 10. | CB NY S/A IFC Financial Institutions Growth Fund LP | 42,806,493 | 3.67 | 41,238,490 | 3.67 |
| 11. | Sri Lanka Insurance Corporation Ltd. – General Fund | 41,306,794 | 3.54 | 39,793,725 | 3.54 |
| 12. | Employees Trust Fund Board | 20,330,734 | 1.74 | 19,586,019 | 1.74 |
| 13. | Renuka Hotels PLC | 15,053,876 | 1.29 | 11,118,680 | 0.99 |
| 14. | Cargo Boat Development Company PLC | 10,565,178 | 0.91 | 8,017,215 | 0.71 |
| 15. | Mr M J Fernando | 10,492,476 | 0.90 | 10,108,137 | 0.90 |
| 16. | Hallsville Trading Group INC. | 10,271,852 | 0.88 | 7,876,387 | 0.70 |
| 17. | Renuka Consultants & Services Limited | 9,275,689 | 0.79 | 8,935,921 | 0.79 |
| 18. | Mr A H Munasinghe | 7,660,822 | 0.66 | 4,882,125 | 0.43 |
| 19. | Mr S V Somasunderam | 6,391,472 | 0.55 | 6,001,380 | 0.53 |
| 20. | Seylan Bank PLC/Andaradeniya Estate (Pvt) Ltd. | 5,555,536 | 0.48 | 10,000,000 | 0.89 |
| | **Subtotal** | 903,196,111 | 77.38 | 798,633,821 | 71.02 |
| | **Other shareholders** | 264,040,331 | 22.62 | 325,846,707 | 28.98 |
| | **Total** | 1,167,236,442 | 100.00 | 1,124,480,528 | 100.00 |

*(*) Comparative shareholdings as at December 31, 2021 of the twenty largest shareholders as at December 31, 2022.*

## Non-voting shareholders Table – 39

| *As at December 31,* Ordinary shares – Non-voting | 2022 Number of shares | 2022 Percentage % | 2021(*) Number of shares | 2021(*) Percentage % |
|---|---|---|---|---|
| 1. Employees Trust Fund Board | 5,643,261 | 7.78 | 5,425,375 | 7.78 |
| 2. Akbar Brothers (Pvt) Ltd. A/C No. 1 | 3,542,491 | 4.88 | 3,345,296 | 4.80 |
| 3. GF Capital Global Limited | 1,875,479 | 2.59 | 1,803,067 | 2.59 |
| 4. Mr A H Munasinghe | 1,762,178 | 2.43 | 1,694,141 | 2.43 |
| 5. Mr M F Hashim | 1,304,361 | 1.80 | 1,362,616 | 1.95 |
| 6. M J F Exports (Pvt) Ltd. | 1,240,950 | 1.71 | 1,193,037 | 1.71 |
| 7. Mrs L V C Samarasinha | 1,144,500 | 1.58 | 1,052,622 | 1.51 |
| 8. Janashakthi Insurance PLC – Shareholders | 1,076,533 | 1.48 | 1,098,757 | 1.58 |
| 9. Saboor Chatoor (Pvt) Ltd. | 1,037,989 | 1.43 | 997,913 | 1.43 |
| 10. Mr T W A Wickramasinghe, Mrs N Wickramasinghe (Joint) | 985,150 | 1.36 | 859,923 | 1.23 |
| 11. Deutsche Bank AG as Trustee to Assetline Income Plus Growth Fund | 935,463 | 1.29 | 899,345 | 1.29 |
| 12. Mr E Chatoor | 859,134 | 1.18 | 825,963 | 1.18 |
| 13. Bansei Securities Capital (Pvt) Ltd./I.S.P. Perera | 836,000 | 1.15 | – | – |
| 14. Mr R Gautam | 786,344 | 1.08 | 745,897 | 1.07 |
| 15. Mr J D Bandaranayake, Ms N Bandaranayake and Dr V Bandaranayake (Joint) | 772,196 | 1.06 | 742,382 | 1.06 |
| 16. Mr K S M De Silva | 758,418 | 1.05 | 706,366 | 1.01 |
| 17. Mr J D Bandaranayake, Dr V Bandaranayake and Ms I Bandaranayake (Joint) | 749,713 | 1.03 | 720,767 | 1.03 |
| 18. Mr A L Gooneratne | 747,743 | 1.03 | 718,873 | 1.03 |
| 19. Mr M J Fernando | 712,766 | 0.98 | 685,247 | 0.98 |
| 20. Mr P G N D Gunathilake | 700,000 | 0.96 | 144,758 | 0.21 |
| Subtotal | 27,470,669 | 37.85 | 25,022,345 | 35.87 |
| Other shareholders | 45,070,936 | 62.15 | 44,718,426 | 64.13 |
| Total | 72,541,605 | 100.00 | 69,740,771 | 100.00 |

*(*) Comparative shareholdings as at December 31, 2021 of the twenty largest shareholders as at December 31, 2022.*

## 4.3 Public shareholding [As per Rule No. 7.6 (iv) and Rule No. 7.13.1 of the Listing Rules of the CSE] Table – 40

| | 2022 Number | 2022 Percentage % | 2021 Number | 2021 Percentage % |
|---|---|---|---|---|
| Number of shareholders representing the public holding (Voting) | 16,989 | 99.81 | 16,569 | 99.77 |
| Number of shareholders representing the public holding (Non-voting) | 5,985 | 99.88 | 5,949 | 99.86 |
| Float adjusted market capitalisation Rs. Bn. – (Compliant under Option 1) | 61 | | 94 | |

## 4.4 Directors' shareholding including the Chief Executive Officer's shareholding [As per Rule No. 7.6 (v) of the Listing Rules of the CSE] Table – 41

| | ORDINARY SHARES – VOTING | | ORDINARY SHARES – NON-VOTING | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Prof A K W Jayawardane – Chairman | 13,580 | 13,083 | Nil | Nil |
| Mr Sharhan Muhseen – Deputy Chairman | 2,598 | 2,503 | Nil | Nil |
| Mr S C U Manatunge – Managing Director/Chief Executive Officer | 75,815 | 73,038 | Nil | Nil |
| Mr K Dharmasiri | Nil | Nil | Nil | Nil |
| Mr S Prabagar (*) | 165,703 | 150,000 | 24,578 | 23,630 |
| Mr L D Niyangoda | Nil | Nil | Nil | Nil |
| Ms N T M S Cooray | 363,592 | 350,274 | 56,429 | 54,251 |
| Ms J Lee | Nil | Nil | Nil | Nil |
| Mr R Senanayake | Nil | Nil | Nil | Nil |
| Mrs D L T S Wijewardena | Nil | Nil | Nil | Nil |
| Dr Sivakumar Selliah (**) | 27,161 | 261,167 | Nil | Nil |

*(*) Appointed as a Director w.e.f. May 12, 2022*
*(**) Appointed as a Director w.e.f. April 27, 2022*

### 4.5 Distribution schedule of number of holders and percentage of holding in each class of equity securities [As per Rule No. 7.6 (x) of the Listing Rules of the CSE] Table – 42

| | AS AT DECEMBER 31, 2022 | | | | AS AT DECEMBER 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shareholders | Percentage % | Number of shares | Percentage % | Number of shareholders | Percentage % | Number of shares | Percentage % |
| **Ordinary shares – Voting** | | | | | | | | |
| 1 – 1,000 | 9,449 | 55.51 | 2,195,132 | 0.19 | 9,159 | 55.14 | 2,197,203 | 0.20 |
| 1,001 – 10,000 | 5,164 | 30.34 | 17,649,929 | 1.51 | 5,004 | 30.13 | 17,389,250 | 1.55 |
| 10,001 – 100,000 | 2,024 | 11.89 | 56,831,179 | 4.87 | 2,032 | 12.23 | 57,783,364 | 5.14 |
| 100,001 – 1,000,000 | 322 | 1.89 | 83,764,568 | 7.18 | 340 | 2.05 | 89,545,274 | 7.96 |
| Over 1,000,000 | 63 | 0.37 | 1,006,795,634 | 86.25 | 74 | 0.45 | 957,565,437 | 85.15 |
| **Total** | 17,022 | 100.00 | 1,167,236,442 | 100.00 | 16,609 | 100.00 | 1,124,480,528 | 100.00 |
| **Ordinary shares – Non-voting** | | | | | | | | |
| 1 – 1,000 | 3,272 | 54.63 | 774,139 | 1.07 | 3,306 | 55.53 | 810,801 | 1.16 |
| 1,001 – 10,000 | 1,936 | 32.33 | 6,551,991 | 9.03 | 1,885 | 31.66 | 6,514,550 | 9.34 |
| 10,001 – 100,000 | 669 | 11.17 | 18,351,415 | 25.30 | 653 | 10.97 | 17,992,665 | 25.80 |
| 100,001 – 1,000,000 | 103 | 1.72 | 28,236,318 | 38.92 | 102 | 1.71 | 27,447,844 | 39.36 |
| Over 1,000,000 | 9 | 0.15 | 18,627,742 | 25.68 | 8 | 0.13 | 16,974,911 | 24.34 |
| **Total** | 5,989 | 100.00 | 72,541,605 | 100.00 | 5,954 | 100.00 | 69,740,771 | 100.00 |

### 4.6 Composition of shareholders based on residency and category Table – 43

| | AS AT DECEMBER 31, 2022 | | | | AS AT DECEMBER 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shareholders | Percentage % | No. of shares | Percentage % | Number of shareholders | Percentage % | No. of shares | Percentage % |
| **Ordinary shares – Voting** | | | | | | | | |
| Resident | 16,774 | 98.54 | 965,754,985 | 82.74 | 16,353 | 98.46 | 892,930,537 | 79.41 |
| Non-resident | 248 | 1.46 | 201,481,457 | 17.26 | 256 | 1.54 | 231,549,991 | 20.59 |
| **Total** | 17,022 | 100.00 | 1,167,236,442 | 100.00 | 16,609 | 100.00 | 1,124,480,528 | 100.00 |
| Individuals | 16,369 | 96.16 | 427,935,318 | 36.66 | 15,895 | 95.70 | 350,776,984 | 31.19 |
| Institutions | 653 | 3.84 | 739,301,124 | 63.34 | 714 | 4.30 | 773,703,544 | 68.81 |
| **Total** | 17,022 | 100.00 | 1,167,236,442 | 100.00 | 16,609 | 100.00 | 1,124,480,528 | 100.00 |
| **Ordinary shares – Non-voting** | | | | | | | | |
| Resident | 5,915 | 98.76 | 68,026,397 | 93.78 | 5,883 | 98.81 | 65,580,173 | 94.03 |
| Non-resident | 74 | 1.24 | 4,515,208 | 6.22 | 71 | 1.19 | 4,160,598 | 5.97 |
| **Total** | 5,989 | 100.00 | 72,541,605 | 100.00 | 5,954 | 100.00 | 69,740,771 | 100.00 |
| Individuals | 5,752 | 96.04 | 47,993,209 | 66.16 | 5,699 | 95.72 | 46,434,683 | 66.58 |
| Institutions | 237 | 3.96 | 24,548,396 | 33.84 | 255 | 4.28 | 23,306,088 | 33.42 |
| **Total** | 5,989 | 100.00 | 72,541,605 | 100.00 | 5,954 | 100.00 | 69,740,771 | 100.00 |

## 5. Material foreseeable risk factors [As per Rule No. 7.6 (vi) of the Listing Rules of the CSE]

Information pertaining to the material foreseeable risk factors, that require disclosures as per the Rule No. 7.6 (vi) of the Listing Rules of the CSE is discussed in the section on "Risk Governance and Management" on pages 203 to 228.

## 6. Material issues pertaining to employees and industrial relations pertaining to the Bank [As per Rule No. 7.6 (vii) of the Listing Rules of the CSE]

During the year under review, there were no material issues relating to employees and industrial relations pertaining to the Bank, which warrant disclosure.

## 7. Information on movement in number of shares represented by the stated capital [As per Rule No.7.6 (ix) of the Listing Rules of the CSE] Table – 44

| Year | Description | Type of share | Basis | Number of shares issued/ (redeemed) | NUMBER OF SHARES Ordinary shares voting | Ordinary shares non-voting | Cumulative redeemable preference shares |
|---|---|---|---|---|---|---|---|
| 1987 | As at December 31, 1987 | | | | 3,000,000 | – | – |
| 1988 | Bonus issue | Voting | 2 for 3 | 2,000,000 | 5,000,000 | – | – |
| 1990 | Bonus issue | Voting | 1 for 1 | 5,000,000 | 10,000,000 | – | – |
| 1993 | Rights issue | Voting | 1 for 4 | 2,500,000 | 12,500,000 | – | – |
| 1996 | Bonus issue | Voting | 3 for 5 | 7,500,000 | 20,000,000 | – | – |
| | Rights issue | Voting | 1 for 4 | 5,000,000 | 25,000,000 | – | – |
| | Share swap | Non-voting | | 894,275 | 25,000,000 | 894,275 | – |
| | Bonus issue | Non-voting | 3 for 5 | 536,565 | 25,000,000 | 1,430,840 | – |
| | Rights issue | Non-voting | 1 for 4 | 357,710 | 25,000,000 | 1,788,550 | – |
| 1998 | Bonus issue | Voting | 3 for 10 | 7,500,000 | 32,500,000 | 1,788,550 | – |
| | Bonus issue | Non-voting | 3 for 10 | 536,565 | 32,500,000 | 2,325,115 | – |
| 2001 | Bonus issue | Voting | 1 for 5 | 6,500,000 | 39,000,000 | 2,325,115 | – |
| | Bonus issue | Non-voting | 1 for 5 | 465,023 | 39,000,000 | 2,790,138 | – |
| | Issue of cumulative redeemable preference shares | | | 90,655,500 | 39,000,000 | 2,790,138 | 90,655,500 |
| 2003 | Bonus issue | Voting | 1 for 3 | 13,000,000 | 52,000,000 | 2,790,138 | 90,655,500 |
| | Rights issue | Voting | 1 for 4 | 13,000,000 | 65,000,000 | 2,790,138 | 90,655,500 |
| | Bonus issue | Non-voting | 1 for 3 | 930,046 | 65,000,000 | 3,720,184 | 90,655,500 |
| | Rights issue | Non voting | 1 for 4 | 930,046 | 65,000,000 | 4,650,230 | 90,655,500 |
| | Issue of cumulative redeemable preference shares | | | 100,000,000 | 65,000,000 | 4,650,230 | 190,655,500 |
| 2004 | ESOP | Voting | | 29,769 | 65,029,769 | 4,650,230 | 190,655,500 |
| 2005 | ESOP | Voting | | 1,361,591 | 66,391,360 | 4,650,230 | 190,655,500 |
| | Bonus issue | Voting | 1 for 1 | 66,389,162 | 132,780,522 | 4,650,230 | 190,655,500 |
| | Bonus issue | Non-voting | 1 for 1 | 4,650,230 | 132,780,522 | 9,300,460 | 190,655,500 |
| 2006 | ESOP | Voting | | 737,742 | 133,518,264 | 9,300,460 | 190,655,500 |
| | Redemption of cumulative redeemable preference shares | | | (90,655,500) | 133,518,264 | 9,300,460 | 100,000,000 |
| 2007 | Rights issue | Voting | 3 for 10 | 40,288,996 | 173,807,260 | 9,300,460 | 100,000,000 |
| | Bonus issue | Voting | 1 for 3 | 58,204,268 | 232,011,528 | 9,300,460 | 100,000,000 |
| | ESOP | Voting | | 919,649 | 232,931,177 | 9,300,460 | 100,000,000 |
| | Rights issue | Non-voting | 3 for 10 | 2,790,138 | 232,931,177 | 12,090,598 | 100,000,000 |
| | Bonus issue | Non-voting | 1 for 3 | 4,030,199 | 232,931,177 | 16,120,797 | 100,000,000 |
| 2008 | Redemption of cumulative redeemable preference shares | | | (100,000,000) | 232,931,177 | 16,120,797 | – |
| | ESOP | Voting | | 350,049 | 233,281,226 | 16,120,797 | – |
| 2009 | ESOP | Voting | | 540,045 | 233,821,271 | 16,120,797 | – |
| 2010 | Share split | Voting | 1 for 2 | 117,402,608 | 351,223,879 | 16,120,797 | – |
| | Share split | Non-voting | 1 for 2 | 8,060,398 | 351,223,879 | 24,181,195 | – |
| | ESOP | Voting | | 2,081,508 | 353,305,387 | 24,181,195 | – |
| 2011 | Scrip issue for final dividend 2010 | Voting | Rs. 2.00 per share | 2,277,195 | 355,582,582 | 24,181,195 | – |
| | Scrip issue for final dividend 2010 | Non-voting | Rs. 2.00 per share | 255,734 | 355,582,582 | 24,436,929 | – |
| | ESOP | Voting | | 1,457,645 | 357,040,227 | 24,436,929 | – |

| | | | | | NUMBER OF SHARES | | |
|---|---|---|---|---|---|---|---|
| Year | Description | Type of share | Basis | Number of shares issued/ (redeemed) | Ordinary shares voting | Ordinary shares non-voting | Cumulative redeemable preference shares |
| | Rights issue | Voting | 1 for 14 | 25,502,433 | 382,542,660 | 24,436,929 | – |
| | Rights issue | Non-voting | 1 for 14 | 1,745,494 | 382,542,660 | 26,182,423 | – |
| | Share split | Voting | 1 for 1 | 382,542,660 | 765,085,320 | 26,182,423 | – |
| | Share split | Non-voting | 1 for 1 | 26,182,423 | 765,085,320 | 52,364,846 | – |
| 2012 | Scrip issue for final dividend 2011 | Voting | Rs. 2.00 per share | 13,587,144 | 778,672,464 | 52,364,846 | – |
| | Scrip issue for final dividend 2011 | Non-voting | | 1,108,902 | 778,672,464 | 53,473,748 | – |
| | ESOP | Voting | | 1,341,768 | 780,014,232 | 53,473,748 | – |
| 2013 | Scrip issue for final dividend 2012 | Voting | Rs. 2.00 per share | 13,076,189 | 793,090,421 | 53,473,748 | – |
| | Scrip issue for final dividend 2012 | Non-voting | | 1,069,474 | 793,090,421 | 54,543,222 | – |
| | ESOP | Voting | | 1,445,398 | 794,535,819 | 54,543,222 | – |
| 2014 | Scrip issue for final dividend 2013 | Voting | Rs. 2.00 per share | 12,504,344 | 807,040,163 | 54,543,222 | – |
| | Scrip issue for final dividend 2013 | Non-voting | | 1,036,724 | 807,040,163 | 55,579,946 | – |
| | ESOP | Voting | | 3,237,566 | 810,277,729 | 55,579,946 | – |
| 2015 | Scrip issue for final dividend 2014 | Voting | Rs. 2.00 per share | 8,118,773 | 818,396,502 | 55,579,946 | – |
| | Scrip issue for final dividend 2014 | Non-voting | | 719,740 | 818,396,502 | 56,299,686 | – |
| | ESOP | Voting | | 2,170,613 | 820,567,115 | 56,299,686 | – |
| 2016 | Scrip issue for final dividend 2015 | Voting | Rs. 2.00 per share | 11,818,040 | 832,385,155 | 56,299,686 | – |
| | Scrip issue for final dividend 2015 | Non-voting | | 912,967 | 832,385,155 | 57,212,653 | – |
| | ESOP | Voting | | 1,136,732 | 833,521,887 | 57,212,653 | – |
| 2017 | Scrip issue for final dividend 2016 | Voting | Rs. 2.00 per share | 10,521,802 | 844,043,689 | 57,212,653 | – |
| | Scrip issue for final dividend 2016 | Non-voting | | 903,357 | 844,043,689 | 58,116,010 | – |
| | Rights issue | Voting | 1 for 10 | 84,649,465 | 928,693,154 | 58,116,010 | – |
| | Rights issue | Non-voting | 1 for 10 | 5,811,601 | 928,693,154 | 63,927,611 | – |
| | ESOP | Voting | | 3,278,537 | 931,971,691 | 63,927,611 | – |
| 2018 | Scrip issue for final dividend 2017 | Voting | Rs. 2.00 per share | 11,998,388 | 943,970,079 | 63,927,611 | – |
| | Scrip issue for final dividend 2017 | Non-voting | | 1,085,563 | 943,970,079 | 65,013,174 | – |
| | ESOP | Voting | | 1,739,324 | 945,709,403 | 65,013,174 | – |
| 2019 | Scrip issue for final dividend 2018 | Voting | Rs. 2.00 per share | 15,249,529 | 960,958,932 | 65,013,174 | – |
| | Scrip issue for final dividend 2018 | Non-voting | | 1,241,095 | 960,958,932 | 66,254,269 | – |
| | ESOP | Voting | | 293,385 | 961,252,317 | 66,254,269 | – |
| 2020 | Scrip issue for final dividend 2019 | Voting | Rs. 2.00 per share | 22,485,434 | 983,737,751 | 66,254,269 | – |
| | Scrip issue for final dividend 2019 | Non-Voting | | 1,716,432 | 983,737,751 | 67,970,701 | – |
| | Issue of shares via a Private Placement | Voting | | 115,197,186 | 1,098,934,937 | 67,970,701 | – |
| 2021 | Scrip issue for final dividend 2020 | Voting | Rs. 2.00 per share | 25,071,337 | 1,124,006,274 | 67,970,701 | – |
| | Scrip issue for final dividend 2020 | Non-Voting | | 1,770,070 | 1,124,006,274 | 69,740,771 | – |
| | ESOP | Voting | | 474,254 | 1,124,480,528 | 69,740,771 | – |
| 2022 | Scrip issue for final dividend 2021 | Voting | Rs. 3.00 per share | 42,755,914 | 1,167,236,442 | 69,740,771 | – |
| | Scrip issue for final dividend 2021 | Non-Voting | | 2,800,834 | 1,167,236,442 | 72,541,605 | – |

## 8. Engaging with shareholders

During the year, the Bank complied with its Shareholder Communication Policy, which outlines the various formal channels through which it engages with shareholders. It covers the timely communication of quarterly performance of the Group and the Bank as set out on pages 112 to 117 in "Summary of Interim Financial Statements – Group and Bank". It also records significant events that may reasonably be expected to impact the share price. (More details are given in Financial Calendar on page 231)

## 9. Quarterly performance in 2022 compared to 2021 [As per Rule No. 7.4 (a) (i) of the Listing Rules of the CSE]

Despite the challenges faced during the year, the Bank duly submitted the Interim Financial Statements for the year 2022 to the CSE within applicable statutory deadlines. (The Bank duly complied with this requirement for 2021 as well). Please refer "Financial Calendar" on page 231 for further details. A Summary of the Income Statement and the Statement of Financial Position depicting quarterly performance during 2022 together with comparatives for 2021 is given in "Summary of Interim Financial Statements – Group and Bank" on pages 112 to 117 for the information of stakeholders.

The Audited Income Statement for the year ended December 31, 2022 and the Audited Statement of Financial Position as at December 31, 2022 will be submitted to the CSE within three months from the year end, which is well within the required deadline as required by Rule No. 7.5 (a) of the Listing Rules of the CSE. (The Bank duly complied with this requirement for 2021).

This Annual Report in its entirety is available on the Bank's website both as a PDF file and as well as an interactive version *(https://www.combank.lk/investors)*.

Shareholders may also elect to receive a hard copy of the Annual Report on request. The Company Secretary of the Bank will respond to individual letters received from shareholders based on the requests made through the specimen request letter included in the booklet sent to shareholders.

## 10. Debt securities

Details of debentures issued and redeemed by the Bank during the year as well as the balances outstanding is as shown in the Table 45 given below:

### 10.1 Debenture composition Table – 45

| | FIXED INTEREST RATE | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | | | |
| Type of Issue | Public | Public | Public | Public | Public | Public | Public | Public | Public |
| Debenture Type | Type "B" | Type "B" | Type "A" | Type "B" | Type "A" | Type "B" | Type "A" | Type "B" | Type "C" |
| CSE Listing | Listed | Listed | Listed | Listed | Listed | Listed | Listed | Listed | Listed |
| Issue Date | 9-Mar-16 | 28-Oct-16 | 23-Jul-18 | 23-Jul-18 | 21-Sep-21 | 21-Sep-21 | 12-Dec-22 | 12-Dec-22 | 12-Dec-22 |
| Maturity Date | 8-Mar-26 | 27-Oct-26 | 22-Jul-23 | 22-Jul-28 | 20-Sep-26 | 20-Sep-28 | 11-Dec-27 | 11-Dec-29 | 11-Dec-32 |
| Interest Payable Frequency | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually |
| Offered Interest Rate | 11.25% p.a. | 12.25% p.a. | 12.00% p.a. | 12.50% p.a. | 9.00% p.a. | 9.50% p.a. | 28.00% p.a. | 27.00% p.a. | 22.00% p.a. |
| Amount (Rs. Mn.) | 1,749.09 | 1,928.20 | 8,393.84 | 1,606.16 | 4,237.47 | 4,358.00 | 6,724.68 | 3,263.82 | 11.50 |
| **Market Values** | | | | | | | | | |
| – Highest (Rs.) | Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | 102.00 | Not traded during the year | Not traded during the year | Not traded during the year |
| – Lowest (Rs.) | | | | | | 100.00 | | | |
| – Year-end (Rs.) | | | | | | 102.00 | | | |
| **Interest Rates** | | | | | | | | | |
| – Coupon Rate (%) | 11.25 | 12.25 | 12.00 | 12.50 | 9.00 | 9.50 | 28.00 | 27.00 | 22.00 |
| – Effective Annual Yield (%) | 11.57 | 12.63 | 12.36 | 12.89 | 9.20 | 9.73 | 29.96 | 28.82 | 23.21 |
| Interest rate of comparable Government Securities (%) | 30.70 | 28.20 | 32.02 | 26.30 | 28.20 | 26.30 | 26.85 | 26.85 | 26.10 |
| **Other Ratios as at date of last trade** | | | | | | | | | |
| – Interest Yield (%) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| – Yield to Maturity (%) | N/A | N/A | N/A | N/A | N/A | 9.50 | N/A | N/A | N/A |

## 11. Key shareholder return indicators Table – 46

| | **2022** | 2021 |
|---|---|---|
| Debt equity ratio (%) | **34.02** | 23.74 |
| Net assets value per share (Rs.) | **164.30** | 138.08 |
| Interest cover (Times) | **7.31** | 13.18 |
| Liquid assets ratio (%) (Minimum requirement 20%) | | |
| Domestic Banking Unit | **35.01** | 38.73 |
| Off-shore Banking Unit | **32.37** | 36.39 |
| Consolidated (Sri Lankan operations) | **35.88** | N/A |
| Liquidity Coverage Ratio – LCR (%) – Minimum requirement – (90%) | | |
| Rupee | **405.91** | 425.97 |
| All Currency | **293.91** | 242.52 |
| Net Stable Funding Ratio – NSFR (%) – Minimum requirement – (90%) | **173.58** | 157.47 |

## 12. Credit ratings

### 12.1 National long-term ratings

In April 2022, reflecting heightened near-term downside risk stemming from constrained access to foreign-currency funding and the resulting indications of stress experienced by the banks in the system, exacerbated by the sovereign's credit profile, Fitch Ratings Lanka Ltd. (Fitch) revised the Bank's National Long-term Rating from "AA-(lka)/stable outlook" to "AA-(lka)/Rating Watch Negative" along with 12 other banks. In January 2023, following the sovereign downgrade and recalibration of Fitch's Sri Lanka National Rating Scale, Fitch downgraded the Bank's National Long-term Rating from "AA-(lka)/Rating Watch Negative" to "A(lka)/Rating Watch Negative" along with nine other banks.

Meanwhile, the Bank's Bangladesh Operation's credit rating was reaffirmed at AAA by Credit Rating Information Services Ltd. in June 2022 for the 12th consecutive year.

The ratings reflect the Bank's intrinsic financial strength, the established domestic franchise as Sri Lanka's third-largest bank and the entrenched domestic deposit franchise that underpins the Bank's funding and liquidity profile.

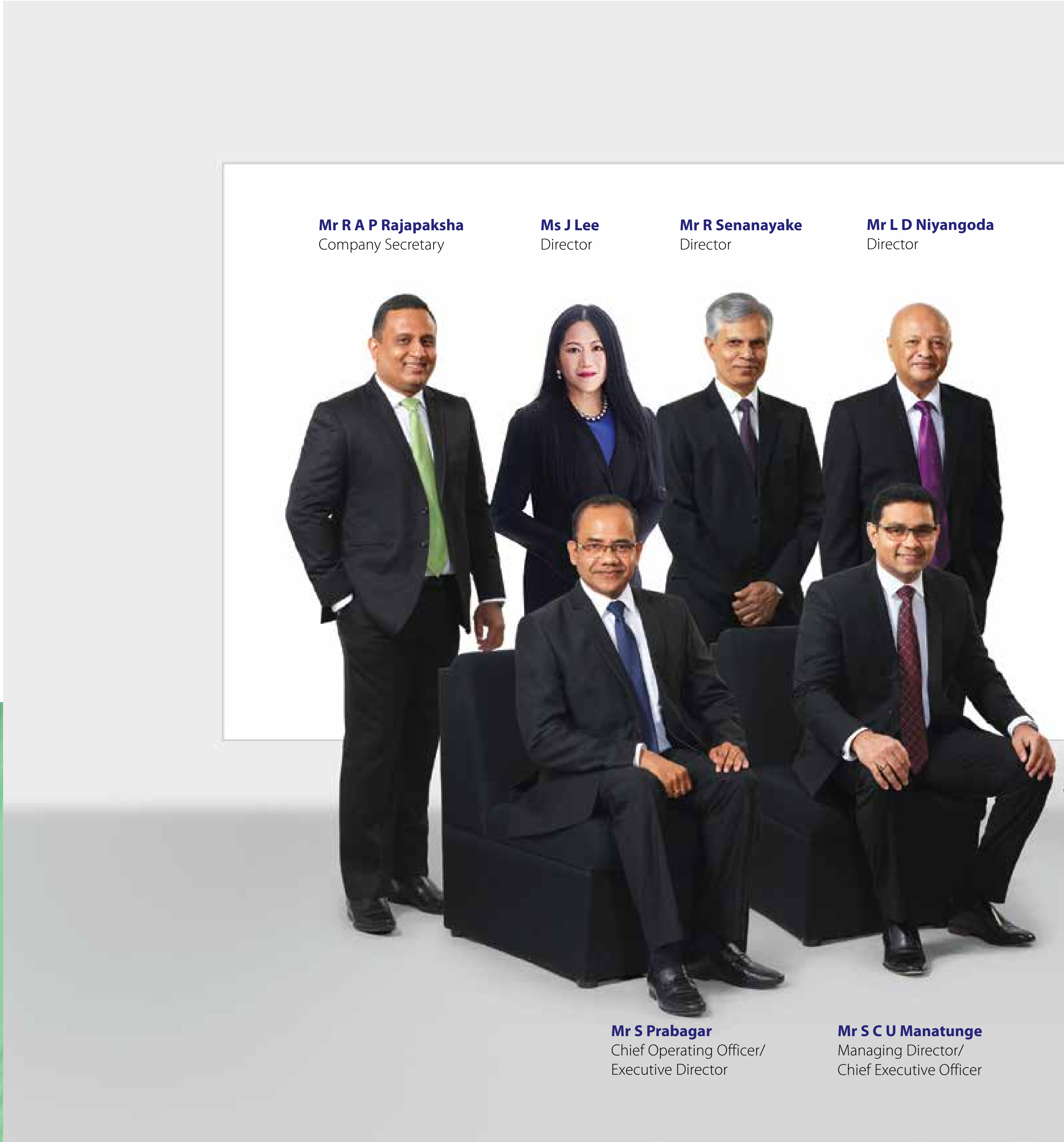
### 12.2 Credit ratings – Debentures

The credit rating of the Bank's Subordinated Debentures was also revised to "AA-(lka)/Rating Watch Negative" to "A(lka)/Rating Watch Negative" by Fitch Ratings Lanka Ltd., in April 2022 and same was downgraded to AA-(lka)/Rating Watch in January 2023 due to the reasons mentioned in Section 12.1 above.

| FIXED INTEREST RATE | | | | | | |
|---|---|---|---|---|---|---|
| 2021 | | | | | | |
| Public | Public | Public | Public | Public | Public | Type of Issue |
| Type "B" | Type "B" | Type "A" | Type "B" | Type "A" | Type "B" | Debenture Type |
| Listed | Listed | Listed | Listed | Listed | Listed | CSE Listing |
| 9-Mar-16 | 28-Oct-16 | 23-Jul-18 | 23-Jul-18 | 21-Sep-21 | 21-Sep-21 | Issue Date |
| 8-Mar-26 | 27-Oct-26 | 22-Jul-23 | 22-Jul-28 | 20-Sep-26 | 20-Sep-28 | Maturity Date |
| Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Bi-annually | Interest Payable Frequency |
| 11.25% p.a. | 12.25% p.a. | 12.00% p.a. | 12.50% p.a. | 9.00% p.a. | 9.50% p.a. | Offered Interest Rate |
| 1,749.09 | 1,928.20 | 8,393.84 | 1,606.16 | 4,237.47 | 4,358.00 | Amount (Rs. Mn.) |
| | | | | | | Market Values |
| Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | Not traded during the year | 102.00 | – Highest (Rs.) |
| | | | | | 100.00 | – Lowest (Rs.) |
| | | | | | 102.00 | – Year-end (Rs.) |
| | | | | | | Interest Rates |
| 11.25 | 12.25 | 12.00 | 12.50 | 9.00 | 9.50 | – Coupon Rate (%) |
| 11.57 | 12.63 | 12.36 | 12.89 | 9.20 | 9.73 | – Effective Annual Yield (%) |
| 10.67 | 10.86 | 8.45 | 11.32 | 10.65 | 11.42 | Interest rate of comparable Government Securities (%) |
| | | | | | | Other Ratios as at date of last trade |
| N/A | N/A | N/A | N/A | N/A | N/A | – Interest Yield (%) |
| N/A | N/A | N/A | N/A | N/A | N/A | – Yield to Maturity (%) |

# Governance and Risk Management

## Board of Directors and profiles



**Mr K Dharmasiri**
Director

**Ms N T M S Cooray**
Director

**Ms D L T S Wijewardena**
Director

**Dr S Selliah**
Director

**Prof A K W Jayawardane**
Chairman

**Mr S Muhseen**
Deputy Chairman

**Mr D N L Fernando**
Director
(Appointed on February 07, 2023)
*Not in the picture*

**Prof A K W Jayawardane**
Chairman

Appointed as the Chairman of the Board of Directors in March 2022.

Appointed as the Deputy Chairman in December 2020.

Appointed as an Independent/ Non-Executive Director in April 2015.

Appointed as the Chairman of the Board Related Party Transactions Review Committee (BRPTRC), Board Nomination Committee (BNC), Board Human Resources & Remuneration Committee (BHRRC), Board Credit Committee (BCC) and Board Strategy Development Committee (BSDC) in March 2022.

**Skills and experience:**

He served as the Vice Chancellor of the University of Moratuwa for six years until November 2017, and as an Endowed Professor in Entrepreneurship at the University of Moratuwa.

He obtained a BSc Eng Degree in Civil Engineering with first class honours from the University of Moratuwa, a Master of Science Degree in Construction from the Loughborough University of Technology UK and holds a PhD in Construction Management from the same University.

He is also a Corporate Member, a Fellow and an International Professional Engineer of the Institution of Engineers, Sri Lanka (IESL), CEng, FIE(SL), IntPE(SL), Fellow of the National Academy of Sciences of Sri Lanka, FNAS(SL), Founder Member of the Society of Structural Engineers Sri Lanka MSSE(SL), Fellow of the Institute of Project Managers, Sri Lanka, FIPM (SL), Life Member of Sri Lanka Association for Advancement of Science.

Member of Sri Lanka Institute of Directors since December 2015. Graduate Member of the Sri Lanka Institute of Directors (SLID) since 2018.

**Other current appointments:**

Director of Sierra Cables PLC, Chairman of CBC Tech Solutions Limited (a subsidiary of the Bank), a Director of Mother Lanka Foundation, a Commission Member of the University Grants Commission, a Board Member of National Science Foundation, Arthur C Clarke Institute for Modern Technologies, a Member of the Stakeholder Engagement Committee of the Central Bank of Sri Lanka and has served as a member of the Board of Management of several other institutions. He is also a Senior Professor in Civil Engineering at the University of Moratuwa.

**Previous appointments:**

Dean, Faculty of Engineering for six years, First NDB Bank Endowed Professor in Entrepreneurship at the University of Moratuwa, President of the Institution of Engineers, Sri Lanka (IESL) and Director General of National Science Foundation.

**Shareholding of Bank:**

Holds 13,580 voting shares

**Mr S Muhseen**
Deputy Chairman

Appointed as an Independent/Non-Executive Director in February 2021 and as the Deputy Chairman of the Bank in March 2022.

Appointed as the Chairman of Board Investment Committee and Board Technology Committee in March 2022.

**Skills and experience:**

A senior Investment Banker with extensive experience in areas of Mergers and Acquisitions, Corporate Finance and Capital Markets who has served in a senior capacity working with company boards and senior leadership teams of financial institutions across Asia to help drive their Strategic Corporate Agenda and Roadmap. He is credited with some leading research reports including reports on Banking sector efficiency, currency depreciation and budget deficit in his role as Head of Sri Lanka Banking sector research coverage and lead Economist at Jardine Flemming. He has also worked at Standard Chartered Bank in the Corporate Banking Division, where he started out as a Management Trainee and at Rodman and Renshaw stock and commodities broker based in Chicago.

In his Investment Banking career spanning over 20 years, he has completed landmark mergers and capital raising transactions in excess of USD 100 billion. The Asia FIG sectors team at Merrill Lynch and Credit Suisse has won the "FIG Asia House of the Year" awards from the Asset magazine for several years under his leadership. Multiple transactions he led have been awarded as best country deals and best financial sector capital raise transactions.

He also has experiences at the policy level working as a Team Leader at the National Council for Economic Development (NCED) under the Ministry of Finance as well as a Director at the Task Force to Rebuild the Nation (TAFREN), Presidential Task Force for rebuilding the economy after the 2004 Tsunami.

He holds a Masters in Economics from the University of Colombo, a Bachelor of Business Administration (Hons) from Western Michigan University and has completed the Corporate Finance training program with JP Morgan in New York.

**Other current appointments:**

Director of CBC Finance Ltd. (a subsidiary of the Bank), Chairman/Director of Platinum Advisors Pte Ltd. and Non-Independent Director of H2O One Pte Ltd., Director of Canary Wharf Holdings Pte Ltd., Independent/Non-Executive Director of Amana Takaful Life PLC, Director of Lankan Angel Network Sri Lanka, Director of Gestetner Ceylon PLC, and Director of David Peiris Holdings (Pvt) Ltd.

**Previous appointments:**

He previously worked in best-in-class global investment banks, Credit Suisse, Bank of America Merrill Lynch and JPMorgan in leading regional coverage roles. His most immediate previous role was as Managing Director Head of South East Asia Financial Institutions Group (FIG) and Head of Asia Insurance at Credit Suisse based in Singapore. He was a Director of Merrill Lynch and an Associate Director of Deloitte.

**Shareholding of Bank:**

Holds 2,598 voting shares

**Mr S C U Manatunge**
Managing Director/
Chief Executive Officer

Appointed as the Managing Director and Chief Executive Officer of the Bank in May 2022.

Appointed as a Non-Independent/ Executive Director and Chief Operating Officer in July 2018.

**Skills and experience:**

He joined the Commercial Bank of Ceylon PLC in 1989. Prior to being appointed as Managing Director/Chief Executive Officer, he functioned as the Executive Director/ Chief Operating Officer of the Bank since 2018. He counts 33 years of experience at the Bank, having held Corporate Management/ Senior positions such as Deputy General Manager – Corporate Banking, Chief Risk Officer, Head of Credit Risk and Chief Manager – Corporate Banking.

He is a Fellow of Chartered Institute of Management Accountants, UK (FCMA – UK) and a Chartered Global Management Accountant (CGMA). He has obtained a Master of Business Administration (MBA) Degree from the University of Sri Jayewardenepura with a Merit Pass. He is also a Fellow Member of the Institute of Bankers – Sri Lanka (FIB), a Fellow of the Institute of Certified Management Accountants of Sri Lanka (FCMA) and a Fellow of the Chartered Management Institute, UK (FCMI). He is also a Member of Sri Lanka Institute of Directors since August 2017.

Under his management, the Corporate Banking Division of the Bank experienced a rapid growth in the loan book and in areas such as Trade Finance fee-based income while maintaining the quality of advances. During his tenure as Chief Operating Officer, he headed strategically important business units of the Bank such as Personal Banking, Corporate Banking, Information Technology, Cards, and Digital Banking guiding them to become industry leaders. He has also given leadership and strategic inputs for transformational projects of the Bank such as "SME Transformation", establishing a long term digital roadmap for the Bank and many projects to improve operational excellence.

He was adjudged the "Chief Information Security Officer of the Year" at the EC – Council Global CISO Forum held in Atlanta – USA in September 2013 in recognition of his outstanding contribution in strengthening and promoting information security practices and IT Risk Management. He was instrumental in forming the Association of Banking Sector Risk Professionals, Sri Lanka and was the President in the year 2014. He has also served as a Council Member of the Association of Professional Bankers (APB) and a member of the CIMA – "Thought Leadership Committee". He was a visiting lecturer for the MBA Degree programme at the University of Colombo and was a resource person at the Training Centre of Central Bank of Sri Lanka and Institute of Bankers of Sri Lanka.

**Other current appointments:**

Managing Director of Commercial Development Company PLC, Deputy Chairman of Commercial Bank of Maldives Private Limited, Director of Lanka Financial Services Bureau Ltd., Vice Chairperson of Sri Lanka Bank's Association (Guarantee) Ltd. and Council Member of the Employer's Federation of Ceylon and Executive Member of The Council for Business with Britain.

**Previous appointments:**

Director CBC Tech Solutions Ltd.

**Shareholding of Bank:**

Holds 75,815 voting shares

**Mr K Dharmasiri**
Director

Appointed as an Independent/Non-Executive Director in July 2015.

*Retired in January 2023*

**Skills and experience:**

A senior banker with 38 years of diversified banking experience both within and outside Sri Lanka.

Holds a B.Phil. (Econ) and B.Com with first class honours from the University of Colombo. Also an Associate Member of the Institute of Bankers of Sri Lanka.

Member of Sri Lanka Institute of Directors since December 2015.

**Other current appointments:**

None

**Previous appointments:**

Non-Executive Nominee Director on the Boards of Janashakthi Insurance Ltd., Sabaragamuwa Development Bank, Merchant Bank of Sri Lanka PLC, BOC Travels (Private) Ltd., BOC Property Development & Management (Private) Ltd, Ceybank Holiday Homes (Private) Ltd., Hotels Colombo (1963) Ltd., Ceybank Asset Management Ltd, Lanka Securities (Private) Ltd., Institute of Bankers of Sri Lanka, Lanka Financial Services (Bureau) Ltd., Lanka Clear (Private) Ltd., Bank of Ceylon (UK) Ltd., Credit Information Bureau of Sri Lanka and Managing Director of Nepal Bank of Ceylon Limited in 2002.

**Shareholding of Bank:**

Nil

**Mr L D Niyangoda**
Director

Appointed as an Independent Non-Executive Director in August 2016.

**Skills and experience:**

He has a proven track record of over 35 years in the corporate environment and is qualified in various management fields both locally as well as internationally.

Consultant, Business and Administration experience for a period of 40 years.

Holds a Bachelor's Degree in Agricultural Science from the University of Peradeniya.

Former member of numerous professional bodies, including the Council for Agricultural Research Policy of Sri Lanka, Standing Committee of Agriculture and Veterinary Studies, University Grants Commission, Member of Board of Faculty of Agriculture, University of Peradeniya.

Member of Sri Lanka Institute of Directors since March 2000.

**Other current appointments:**

Chairman of A Baur & Co. (Pvt) Ltd.

**Previous appointments:**

Managing Director/Chief Executive Officer of A Baur & Co. (Pvt) Ltd., Chief Operating Officer of A Baur & Co. (Pvt) Ltd., Director of Baur Asia (Pte) Ltd. Singapore.

**Shareholding of Bank:**

Nil

**Ms N T M S Cooray**
Director

Appointed as an Independent/Non-Executive Director in September 2016.

**Skills and experience:**

A senior finance professional with wide experience in the private sector.

Holds a Master of Business Administration from the University of Colombo, Fellow Member of the Chartered Institute of Management Accountants, UK (FCMA – UK).

Member of Sri Lanka Institute of Directors since July 2006.

**Other current appointments:**

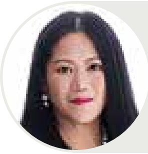
Chairman and Managing Director of Jetwing Travels (Pvt) Ltd. and serving on many other Boards within the Jetwing Group. She is also a Director of Capital Alliance Holdings Ltd., Ceylon Tea Brokers PLC, Allianz Insurance Lanka Ltd. and Allianz Life Insurance Lanka Ltd.

**Previous appointments:**

Former Chairperson of the Sri Lanka Institute of Directors. Director – Finance and Administration on the Board of J Walter Thompson, Non-Executive Director on the Boards of Capital Alliance Finance PLC, Trade Finance and Investments PLC and served on the Boards of many other private and public companies. A member of the Board of the Management of several other institutions.

**Shareholding of Bank:**

Holds 363,592 voting and 56,429 non-voting shares



**Ms J Lee**
Director

Appointed as an Independent/Non-Executive Director in August 2020.

Appointed as the Chairman of the Board Integrated Risk Management Committee in March 2022.

**Skills and experience:**

A pioneer and leading expert in quantitative risk management and its applications to strategy. She has over 30 years of experience as a banker, capital markets expert and partner in management consulting firms serving CEOs and Boards in US and Asia. She is the co-author of the books "What Every CEO Must Know About Risk" and "RAROC and Risk Management". Ms Lee holds an MBA from the Wharton School and a BSc from NYU Stern School of Business. She also completed the Advanced Management Program and the Women on Boards program at Harvard Business School. Since 2000, Ms Lee lives and works in both New York and Asia.

**Other current appointments:**

Managing Director of Dragonfly LLC which she co-founded in 2000. The New York based consulting firm provides strategy, risk management and investment advice to Boards, CEOs, and business leaders globally covering all sectors. CEO of Dragonfly Capital Ventures LLC which she founded in 2009 that develops and invests in renewable energy in South East Asia.

Ms Lee is an independent director of: DBS Group Holdings Ltd & DBS Bank Ltd., Alvarium Tiedemann Holdings, SMRT Corporation Ltd., Chairperson of Strides DST Pte Ltd. (a SMRT Group JV company), Mapletree Logistics Trust Management Limited, JTC Corporation, and Temasek Life Sciences Accelerator where she is also an Entrepreneur-in-Residence.

She serves as an independent director on non-profit Boards: SG Her Empowerment Ltd., NYU Stern School of Business Executive Board, and is the Co-President and Director of Break Some Glass Inc. "WomenExecs on Boards", the alumnae network of Harvard Business School, Women on Boards Program.

**Previous appointments:**

Ms Lee, a Principal of Bankers Trust, was a key member of the pioneering team that developed quantitative risk methodologies and ran the bank's daily global risk and capital reporting. She served as EVP and Board Director of Solar Frontier, a renewable energy subsidiary of Japan-listed Showa Shell Sekiyu KK, now Idemitsu. She was Adjunct Professor at Singapore Management University, developed and taught Enterprise Risk Management for 10 years and has also taught Risk Management at Columbia University and Peking University.

**Shareholding of Bank:**

Nil

**Mr R Senanayake**
Director

Appointed as an Independent/Non-Executive Director in September 2020.

Appointed as Chairman of Board Audit Committee in September 2020.

**Skills and experience:**

A Fellow Member of CA Sri Lanka with over 30 years of post-qualifying experience and holds a B.Com. (Special) degree from the University of Sri Jayewardenepura with a second class upper division pass and a Postgraduate Diploma in Business Management from the PIM of the University of Sri Jayewardenepura. Completed his articles at Ernst & Young.

Mr Senanayake is passionate about and possesses extensive domain knowledge on the financial services industry, financial management and corporate reporting in particular, including such aspects as risk management, capital management, corporate governance, compliance, sustainability and integrated reporting. Besides many other local and overseas training programmes, he has undergone training on banking and finance with Euromoney and on general management with the National University of Singapore.

**Other current appointments:**

Heads the Smart Academy at Smart Media The Annual Report Company, an International Integrated Reporting Council (IIRC) Accredited Training Foundation Partner, Independent Non-Executive Director of Senkadagala Finance PLC since April 2017 and a Director of Virtual Capital Technologies (Pvt) Ltd., a software development company that specialises in enterprise solutions in the real estate, retail and telecom spaces catering to the New Zealand and the Australian markets since August 2017.

**Previous appointments:**

Independent/Non-Executive Director from October 2014 to March 2021 and as a Non-Independent/Non-Executive Director from April 2021 to June 2022 of CBC Finance Ltd, a fully owned subsidiary of Commercial Bank of Ceylon PLC. Financial Accountant, Singer Industries (Ceylon) PLC, held several positions from Senior Manager Finance up to Assistant General Manager (Finance & Planning) from 1994 to 2007 at Commercial Bank of Ceylon PLC and Chief Financial Officer at Nations Trust Bank PLC.

**Shareholding of Bank:**

Nil

**Ms D L T S Wijewardena**
Director

Appointed to the Board as an Independent/Non-Executive Director in March 2021.

**Skills and experience:**

She is a corporate executive with a proven track record in the IT industry both locally and internationally. She has been serving in various senior positions in the industry for many years gaining diverse experience in providing technology solutions for high tech startups to large multinational businesses in the world.

A Graduate Member of British Computer Society, United Kingdom, she gained her board executive education at Harvard Business School. She also earned Strategy Certification for Game Changing Organisations and Artificial Intelligence in impact for business strategies from Massachusetts Institute of Technology, Sloan School of Management. WIM together with IFC and Government of Australia awarded her as the Best Woman Board Director 2021 (Sri Lanka/Maldives) at the WIM awards 2021 in Colombo.

**Other current appointments:**

Chief Executive Officer of Aventude (Pvt) Ltd. ("Aventude") which she co-founded in 2018.

Director/Shareholder of Aventude Pte Ltd, Singapore. Aventude is a technology strategic consultation & solutions company based in Colombo, Stockholm and Singapore with the specialisation of expertise in solving business problems using technology in an end–to–end spectrum.

Director of Meta Dynamics, UAE, a newly formed company intended to carry out advance technical services for Web 3.0 related development.

**Previous appointments:**

Vice Chairperson of the Cabinet approved national initiative, Women's Chamber for Digital Sri Lanka (WCDSL), an initiative to uplift women participation in digital economy of Sri Lanka through ICT education, career empowerment and supportive policies.

**Shareholding of Bank:**

Nil

**Dr S Selliah**
Director

Appointed as an Independent/Non-Executive Director in April, 2022.

**Skills and experience:**

He holds a MBBS degree and a Master's Degree (M.Phil). He has over twenty years of diverse and extensive experience in serving on the Boards related to varied fields including Manufacturing, Healthcare, Insurance, Logistics, Packaging, Renewable Power, Plantation, Retail etc. He serves on the Boards of many Public listed and Private companies. Has extensive experience on serving on Board sub committees which include Audit , Human Resource and Remuneration, Investment, Strategic Planning, Related Party, Nomination, etc.

**Other current appointments:**

Deputy Chairman of Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC and Asiri Central Hospitals (Pvt) Ltd., Director of Lanka Tiles PLC, HNB Assurance PLC, Lanka Walltiles PLC, ACL Cables PLC, and Swisstek (Ceylon) PLC and Chairman of JAT Holdings PLC, Vydexa (Lanka) Power Corporation (Pvt) Ltd. and Cleanco Lanka (Pvt) Ltd. He has also served on many other Boards in the past. Currently, he also serves on many Board Sub Committees of the companies listed above as the Chairman or a Member.

**Previous appointments:**

He was a Director of Expolanka Holdings PLC, Horana Plantation PLC, Unidil Packaging Pvt ltd in the past. He was also Director at Lanka Ceramic PLC, Softlogic Holdings PLC, Odel PLC and Swisstek Aluminium (Pvt) Ltd. He has served as a Senior Lecturer in the Faculty of Medicine, University of Kelaniya for many years in the past and served on several committees. He was the Head of the Department of Physiology, University of Kelaniya for a period of nine years during his tenure at the Faculty. He has also served as a Council Member at the University of Colombo.

**Shareholding of Bank:**

Holds 27,161 voting shares

**Mr S Prabagar**
Chief Operating Officer/
Executive Director

Appointed as the Chief Operating Officer and an Executive Director in May 2022.

**Skills and experience:**

A senior banker with over 27 years of diversified banking experience with Commercial Bank. He has served as Branch Manager of mid sized and larger branches in Colombo, performed duties as the Chief Operating Officer and the Country Manager of the Bank's Bangladesh Operations, provided leadership to Internal Audit function of the Bank as the Head and Assistant General Manager, spearheaded the Bank operations as the Assistant General Manager in charge of Operations and lead Corporate Banking as the Deputy General Manager, which was the last position held by him before taking up this responsibility.

Having turned around the branches he managed to greater performance, he contributed and was instrumental in bringing up Bangladesh Operations from a two branch two booth operation to that of a 19 branch operation, 3rd highest profitable bank next only to SCB and HSBC out of 10 foreign banks, which also contributed to around 15% of the overall bottom line of Commercial Bank. Under his leadership, operation in Bangladesh earned AAA credit rating by the leading credit rating agency CRISL.

He represented the Bank at National Payment Council meetings at CBSL. He also functioned as the Bank's Ombudsman in resolving customer complaints with Financial Ombudsman of the country. He was the representative of the Bank to BTAC (Bankers Technical Assistance Committee) appointed by Bankers Association of Sri Lanka, to take up operational issues faced by banks.

He served in the panel of lecturers to the Post Graduate Diploma in Bank Management offered by Institute of Bankers (IBSL) and carried out lectures for over 4 years. He was a Secretary to Bangladesh-Sri Lanka Chamber of Commerce and Industry, actively promoting trade and investment between the countries.

Mr Prabagar holds an MBA in Banking from University of London, an Associate of Institute of Bankers (AIB – SL), and B.Com from Bharathidasan University in India.

He is a fellow of Chartered Institute of Management Accountants UK (FCMA – UK) and CISA (Certified in System Audit – USA), also holding a Diploma in System Security and Control Audit (DISSCA – CA Sri Lanka).

**Other current appointments:**

Non-Independent/Non-Executive Director of Commercial Bank of Maldives Private Limited (a subsidiary of the Bank).

**Previous appointments:**

Non-Executive Director of CBC Tech Solution Ltd.

Chairman of Roadmap Committee appointed by the CBSL on implementation of Blockchain technology in Sri Lanka.

**Shareholding of Bank:**

Holds 165,703 voting and 24,578 non-voting shares

**Mr D N L Fernando**
Director

Appointed as an Independent Non-Executive Director in February 2023.

**Skills and experience:**

A professional banker, who retired from active service in the banking sector in August 2020 with a career spanning over 33 years at the Bank of Ceylon (BoC). He has vast experience in branch banking, customer service and Corporate/Retail credit in rural and urban branches for over 14 years and training/exposure in international and treasury operations, which he gained during his tenure at the (then) Bank of Ceylon London branch. Under his guidance as the Chief Executive Officer/Director of Bank of Ceylon (UK) Ltd, London [BoC (UK)] he had played a key role in successfully redirecting the BoC (UK) for a strategic turnaround.

He has assumed many prominent roles in the Recoveries Department and the Product Development Banking Unit, where he had initiated a number of noteworthy innovative liability and asset products.

Holds a Bachelor of Science (Hon) from the University of Colombo and served briefly in the Academic Staff of the (then) Batticaloa University College and at the Ministry of Education as a Graduate recruit to "Sri Lanka Education Service".

An Associate Member of the Institute of Bankers of Sri Lanka since 1998.

**Other current appointments:**

Currently, he is the General Manager of Ceybank Holiday Homes (Pvt) Ltd, a subsidiary of Property Development and Management (Pvt) Ltd, which is a subsidiary of BoC.

**Previous appointments:**

He was the Chief Risk Officer (Deputy General Manager) of BoC (which he held until his retirement in August 2020) and the Chief Executive Officer/Director of BoC (UK).

**Shareholding of Bank:**

Nil

**Mr R A P Rajapaksha**
Company Secretary

Appointed as Company Secretary in April 2019.

**Skills and experience:**

An Associate of Chartered Governance Institute – UK & Ireland, formerly known as Institute of Chartered Secretaries and Administrators (ICSA – UK) and a Graduate of the Institute of Chartered Corporate Secretaries (ICCS) of Sri Lanka counting over 19 years of experience in the field of Company Secretarial Practice including 12 years of experience at the Bank. He is a member of Sri Lanka Institute of Directors since September 2017.

**Other current appointments:**

Vice President of the Chartered Governance Institute – UK & Ireland, Sri Lanka & Asia Pacific Branch. Appointed as an All-Island Justice of the Peace in 2019.

**Previous appointments:**

Company Secretary of Bank's fully owned subsidiary – CBC Finance Ltd. from November 2014 to March 2019. Assistant Company Secretary of the Bank from February 2011 to March 2019.

**Shareholding of Bank:**

Nil

# Corporate Management and profiles

**Sanath Manatunge**
Managing Director/Chief Executive Officer

FCMA (UK)/CGMA/FCMI (UK)/FCMA (SL)/FIB (SL)/MBA Merit (University of Sri Jayewardenepura)

33 years in Banking

**S Prabagar**
Chief Operating Officer

FCMA(UK)/CGMA/MBA (University of London)/AIB (SL)/B. Com (Bharathidasan University, India)/DISSCA– CA Sri Lanka/CISA (USA)

27 years in Banking

**Nandika Buddhipala**
Chief Financial Officer

FCA/FCCA (UK)/FCMA/CMA (Aus)/MCISI (UK)/SA Fin (Aus)/IMA (USA)/BSc, BAd (Special) (University of Sri Jayewardenepura)/PG Dip in Management (University of Sri Jayewardenepura)/MBA (University of Colombo)/MA in Financial Economics (University of Colombo)/MSc in Financial Mathematics (University of Colombo)

32 years post qualifying experience including 15 years in Banking

**Isuru Tillakawardana**
Deputy General Manager – Human Resource Management

LL.B (University of Colombo)/MBA (University of Sri Jayewardenepura)/MA (University of Colombo)/Diploma in International Affairs (BCIS)/GSLID (SLID)/Fellow of the Association of HR Professionals

32 years of experience including 13 years in Banking

**Hasrath Munasinghe**
Deputy General Manager – Retail Banking and Marketing

FIB (SL)/FCIM (UK)/FSLIM/FCMI (UK)/ACMA (UK)/CGMA/CMA (Aus)/GSLID (SLID)/MSc in IT (University of Moratuwa)/MBA (University of Southern Queensland, Aus)/CPM (Asia Pacific Marketing Federation, Sing)/Post Graduate Diploma in Business and Finance Administration (CA Sri Lanka)/Advanced Diploma in Credit Management (IBSL)/Diploma in Treasury & Risk Management (IBSL)

29 years of experience including 12 years in Banking

**Asela Wijesiriwardane**
Deputy General Manager – Treasury

BSc (University of Colombo)/MA-Econ (University of Colombo)/ACMA (UK)

26 years in Banking

**Delakshan Hettiarachchi**

Deputy General Manager – Personal Banking

CIM (UK)/MBA (Cardiff Metropolitan University, UK)/AIB (SL)

39 years in Banking

**Kapila Hettihamu**

Chief Risk Officer

BSc (University of Colombo)/MBA (University of Colombo)/Member (Association Cambiste Internationale)

27 years in Banking

**John Premanath**

Deputy General Manager – Management Audit

FCCA (UK)/CISA (USA)/CIA (USA)/BSc Applied Accounting (Oxford Brookes – UK)/AIB (SL)/ DISSCA (CA Sri Lanka)/ISO 27001:2013 ISMS Lead Auditor/GSLID (SLID)

32 years in Banking

**Ms Tamara Bernard**

Deputy General Manager – Corporate Banking

AIB (SL)/Masters in Development Studies (University of Colombo)/MBA (University of Sri Jayewardenepura)

33 years in Banking

**Sumudu Gunawardhana**

Chief Information Officer

BSC (Eng.) in Computer Science and Engineering (University of Moratuwa)/ MBA (University of Colombo)/AIB (SL)/CIMA passed finalist/PMP (USA)/EPGM-Sloan Business School (Massachusetts Institute of Technology USA)

25 years of experience in Information Technology including 2 years in Banking

**Krishan Gamage**

Assistant General Manager – Information Technology

BSc (Eng.) in Electronic and Telecommunication (University of Moratuwa)

24 years of experience in Information Technology including 16 years in Banking

**Prasanna Indrajith**

Assistant General Manager – Finance

FCA/FCCA (UK)/FCMA (SL)/AIB (SL)/BSc BAd (Special) (University of Sri Jayewardenepura)/ Postgraduate Diploma in Business and Financial Admin. (CA Sri Lanka)

28 years post qualifying experience in Finance related fields including 26 years in Banking

**Chinthaka Dharmasena**

Assistant General Manager – Services

BSc (Eng.) Hons in Mechanical Engineering (University of Moratuwa)/MBA (University of Sri Jayewardenepura)/ISO Lead Auditor Certificate/Visiting lecturer at University of Moratuwa

21 years of experience in Manufacturing and Supply Chain Management and 11 years in Banking

**B A H S Preena**

Assistant General Manager – Corporate Banking I

MBA (University of Colombo)/AIB (SL)

35 years in Banking

**Mrs Mithila Shamini**

Assistant General Manager – Personal Banking I

AIB (SL)/Dip. in Business Mgmt.(SLBDC)/ Postgraduate Diploma in Business and Financial Admin. (CA Sri Lanka)/MBA (Griffith University, Aus)

36 years in Banking

**M P Dharmasiri**

Assistant General Manager – Planning

FCA/FCMA (SL)/AIB (SL)/MSc Mgt (University of Sri Jayewardenepura)/MA Financial Economics (University of Colombo)/BSc BAd (Special) (University of Sri Jayewardenepura)

33 years in Banking

**Mrs Dharshanie Perera**

Assistant General Manager – Personal Banking II

MCIM (UK), FICM (SL), AIB (SL)

38 years in Banking

**Ms Kelum Amarasinghe**

Assistant General Manager – Compliance/Compliance Officer

Intermediate Diploma in Banking & Finance (IBSL)/Post graduate Diploma in Strategic Management and Leadership (QUALIFI, UK)

34 years in Banking

**Thusitha Suraweera**

Assistant General Manager – Operations

Passed Finalist, CIMA (UK)

25 years in Banking

**Nalin Samaranayake**

Assistant General Manager –
Credit Supervision and Recoveries

AIB (SL)/Postgraduate Executive Diploma in Bank Mgt./MBA – Cardiff Metropolitan, UK)

35 years in Banking

**Varuna Kolamunna**

Assistant General Manager –
Personal Banking III

Intermediate Diploma in Banking & Finance (IBSL)/Masters of Business Administration (Open University of Malaysia)

32 years in Banking

**Vajira Thotagammana**

Assistant General Manager – Information Technology (Research & Development)

BSc (University of Colombo)

34 years of experience in Information Technology including 29 years in Banking

**S Ganeshan**

Assistant General Manager –
Personal Banking IV/SME

Intermediate Diploma in Banking & Finance (IBSL)/Postgraduate Diploma in Business Administration, Staffordshire University, UK

34 years in Banking

**Sidath Pananwala**

Assistant General Manager –
Corporate Banking II

AIB (SL)/MBA (University of Sri Jayewardenepura)/CMA (Australia)

36 years in Banking

# Senior Management

## Corporate Banking

**Mrs Dilrukshi Nanayakkara**
Head of Corporate Banking

**Mrs Feroza Ameen**
Head of Islamic Banking

**Mrs Sushara Vidyasagara**
Head of Investment Banking

**Prasad Fernando**
Head of Imports

**Lawrian Somanader**
Chief Manager –
Exports

**Geehan Jayawickrama**
Chief Manager –
Corporate Banking

**Mrs Ruvini Samarasinghe**
Chief Manager –
Foreign Operations

## Personal Banking

**Amal Alles**
Head of Centralised Credit
Processing Unit

**S B Wasala**
Senior Regional Manager –
Colombo South

**Sanath Perera**
Senior Regional Manager –
Colombo Inner

**Saneth Jayasundara**
Senior Regional Manager –
Central

**Elmo Sooriyaarachchi**
Regional Manager –
Colombo North

**Shanthapriya Withanage**
Regional Manager –
Greater Colombo

**Sriyan Fernando**
Chief Manager –
City Office

**Michael De Silva**
Regional Manager –
North Central

**Hemantha Sooriyabandara**
Regional Manager –
Colombo Metro

**Ramachandren Sivagnanam**
Regional Manager – Northern

**Mrs Chandani Siyambalagastenne**
Regional Manager – Wayamba

**Ms Dharshini Gunatilleke**
Chief Manager –
Centralised Credit Processing Unit

**Mrs Nelum Wasala**
Chief Manager –
Centralised Credit Processing Unit

**Chamenda Kalugamage**
Regional Manager –
Uva Sabaragamuwa

**Roshan Peiris**
Regional Manager – Southern

# Treasury

**Tivanka Damunupola**
Chief Dealer – Treasury

**Mrs Chandrima Leelaratne**
Chief Manager –
Treasury Processing

**Hemal Jayasekara**
Chief Dealer – ALM

**Kasun Herath**
Chief Dealer –
Treasury Sales

# Support Services

**Pradeep Banduwansa**
Head of Retail Products and
Digital Channels

**Sampath Weerasuriya**
Head of Security and Safety

**Tilak Wakista**
Head of Premises

**Mrs Pushpa Chandrasiri**
Head of Human Resources

**Dr Shanthikumar Fernando**
Chief Manager –
Research and Development

**Priyantha Perera**
Chief Manager –
Super Market Banking Unit

**Nishantha De Silva**
Chief Manager –
Card Centre

**Mrs Charika Jayasekera**
Chief Manager –
Retail Credit Approval Unit

**Mohan Fernando**
Chief Manager –
SME Banking Unit

**Jagath Weerasinghe**
Chief Manager –
Information Technology

**Dushmantha Jayasuriya**
Chief Manager –
Retail Products Unit

**Ravindra Kodytuakku**
Chief Manager –
Compensation & Benefits Unit

**Upul Perera**
Chief Manager –
Central Systems Support Unit

**Buddhika Gunawardana**
Chief Manager –
Information Technology

**Mrs Kalhari Goonaratne**
Chief Manager –
Central Administration

**Upendra Tilakaratne**
Chief Manager –
Data Analytic Unit

**Pramith Rajapaksha**
Company Secretary

**Ms Sunari Dandeniya**
Chief Information Security Officer

# Bangladesh Operations

**Najith Meewanage**
Chief Executive Officer

**Kapila Liyanage**
Deputy Chief Executive Officer and Chief Operating Officer

**Mahmud Hossain**
Deputy Chief Executive Officer and Head of Corporate Banking

**Binoy Gopal Roy**
Chief Financial Officer

**Chirantha Caldera**
Head of Treasury

**Mostofa Anowar Sohel**
Senior Assistant General Manager – Human Resource

**Shakir Kushru**
Senior Assistant General Manager – Personal Banking

**Ms Fatema Zohara**
Assistant General Manager – Corporate Banking

# Subsidiary Operations – Local

**Ruwan De Silva**
Chief Executive Officer – Commercial Development Company PLC

**Keerthi Mediwake**
Chief Executive Officer – CBC Tech Solutions Ltd.

**Upul Dissanayake**
Managing Director/Chief Executive Officer – CBC Finance Ltd.

**Thushara Thomas**
Managing Director – Commercial Insurance Brokers (Pvt) Ltd.

# Subsidiary Operations – Foreign

**Dilan Rajapakse**
Managing Director/Chief Executive Officer
Commercial Bank of Maldives Private Limited

**Sajeev Piyaratne**
Managing Director/Country Head –
CBC Myanmar Microfinance Company Ltd.

# Annual Corporate Governance Report

The Board acknowledges that transparency and accountability are critical to achieving a high-quality governance mechanism that empowers the stakeholders, especially given the role played by the Bank as a financial intermediary.

**Prof A K W Jayawardane**
Chairman

## Chairman's Message

In a world that is contracting in its virtual and physical landscape – thus the Global Village concept; there is an unprecedented footprint of change on past brick and mortar ecosystems, now faced with a barrage of intrusions as well as emerging new markets. Ensuring competitiveness in such a changing and challenging global scenario is mandatory for growth. Heightened competition from both conventional players and new entrants such as fintechs; the increasingly capital-intensive nature of the business; rapid evolution of cutting edge and innovative technologies; demographic and generational changes; and ever tightening regulations have redimensionalised the banking industry. In this contemporary context, the financial services industry faces unprecedented challenges in scaling up operations.

The Bank is entrusted to be an ethical value creator. In that binding commitment, the Bank has to play by the rules and codes of ethics that form the core model of transparency not just as a good practice, but epitomising the ethical foundation - the twin pillars of financial intermediation and maturity transformation. Such an environment exerts even greater pressure on the industry to practice ensuring greater accountability, transparency, good governance, and sound financial and risk management to all their stakeholders while maintaining sustainable operations.

Accountability and prevention of corruption is possible only through implicit transparency. Accountability and transparency go hand in hand; the latter in fact enables accountability. The Board acknowledges that transparency and accountability are critical to achieving a high-quality governance mechanism that empowers the stakeholders, especially given the role played by the Bank as a financial intermediary.

In its core stewardship role, the Board has the ultimate accountability to the Bank's stakeholders for the activities and performance of the Group. We are deeply conscious of our role in fulfilling the expectations of our stakeholders and of our responsibility to report to them on how we are meeting – and plan to continue reciprocating – those expectations. The Board adopts a strategic focus to ensure value creation over the short, medium and long term and takes responsibility for the consequences of the Bank's actions and the resultant performance. The Board also keeps a tab on the actions and performance by timely disclosures including those made in this Integrated Annual Report, to ensure the continuity of transparency across its functional areas.

This requires implicit clarity as to who is responsible for what and to whom at all levels across the Group. In this regard, the Bank has established a number of committees at the Board as well as at the Executive level as elaborated in this Governance Report. These hardwired committees are guided by the relevant directions/guidelines of the regulators, and a number of Board-approved governing documents such as policies, frameworks, terms of reference, and charters, which are reviewed and approved by the Board at least annually. Similar Board-level as well as Executive-level committees have been established – as required – in the subsidiaries and the associate, too, showcasing the Bank's commitment to the Group.

Besides the governing documents upholding Board's roles and responsibilities, Board oversight on reporting, disclosures on related party transactions, performance evaluation and reward structures, and KPIs that target long-term sustainability, are other supporting practices that promote accountability and transparency.

During the year under review, the Bank introduced a new Conduct Policy and reviewed and updated the Anti-Bribery and Anti-Corruption Policy (https://www.combank.lk/info/file/91/anti-bribery-and-anti-corruption-policy) to further enhance our commitment to "best conduct" principles, which together with the Code of Ethics and the Whistleblowers' Charter encourage all staff members at all levels to be ethical and accountable in their dealings. While acknowledging and guided by the need to maintain confidentiality, the precedents, policies and products that require timely disclosures are accessible through the intranet and the Bank's website, as appropriate.

Achieving transparency is a function of information disclosure, both financial and non-financial, about the activities, performance and governance of the Group – and ensuring that this information is accurate, complete, and made available in a timely fashion to the stakeholders. In order to enhance accountability and uphold transparency, the Bank takes into account materiality, completeness, accuracy, balance, clarity, comparability and reliability when reporting on its performance. Assurance certificates obtained by the Bank on its financials, internal controls, sustainability, integrated reporting, and GRI indicators, etc. further corroborate the Bank's own efforts to be a clear contender in both internal and external processes that require third party accreditation.

The publication of this Integrated Annual Report, which includes extensive voluntary disclosures that go beyond compliance requirements, is a clear demonstration of our accountability to the stakeholders. Guided by the new Sustainability Framework (page 52) adopted during the year, we have been gradually expanding our focus and disclosures on environmental, social and governance-related aspects, to showcase in particular that the CSR Trust of the Bank envisages the social and environmental conscience as a pillar by itself, one not just of holistic sustainability but also a benefactor of corporate empathy.

The Bank is aware that in addition to its financial performance, the overall efficacy of its long-term value creation will be judged by its contribution to the society and the environment. In our view, these are mutually inclusive aspects, and are equally important components in a comprehensive definition of sustainability. A profitable operation is a precondition for sustainability, and in such a bearing, the Bank sustains its financial portfolios well replenished to empower the CSR activities that trickle over to the palms, places, and plates of the most impoverished and the needy. These two dimensions are symbiotically-dependent such that both needs to be present for an enterprise to be sustainable. The Bank continues to renew its "license" to operate within a community, to the betterment of those who are physiologically insecure, financially deprived, and burdened with resource poverties.

Given that the Bank conducts its operations with the best interests of all the stakeholders at heart and it is backed by exemplary governance practices, as elaborated in this Corporate Governance Report, the Board of Directors is highly confident about the ability to sustain the Bank's operations into the foreseeable future. Our actions will not be one of economising, but one that works on the guardianship of good practice principles written in the law, and *de facto* ones that are practiced consciously in the market place.

The Bank consolidates the financial aspirations of its stakeholders, while always being a benefactor of grassroots communities, and in that striking dualism of caring for its dependants and protecting the marginalised, the Bank ensures the human touch over quarterly windfalls.

**Prof A K W Jayawardane**
Chairman

Colombo

February 24, 2023

## How we govern (Principles D.5 and D.6)[1]

As per the disclosure requirements of the Banking Act Direction No. 11 of 2007 on Corporate Governance (the Direction), pages 138 to 202 of this Report elaborate the structure, overarching principles, and elements of the Bank's corporate governance framework. In addition, the Bank has complied with the principles enumerated in the Code of Best Practice on Corporate Governance – 2017 (the Code) issued by CA Sri Lanka.

The External Auditors of the Bank, Messrs Ernst & Young have submitted their Assurance Statement to the Central Bank of Sri Lanka (CBSL), following their review of the Bank's compliance in line with the Direction.

The extent of compliance in line with the Direction is disclosed in Annex 1.1 on pages 388 to 399, while compliance with the Code is presented in Annex 1.2 on pages 400 to 405. Furthermore, the Bank has complied with all the disclosure requirements under the prescribed format issued by the CBSL for the publication of Annual Financial Statements, and a comprehensive disclosure statement thereon is given in Annex 1.3 on pages, 406 to 410.

As the Bank is fully compliant with all the applicable requirements of the Direction, the Colombo Stock Exchange (CSE) has exempted the Bank from the disclosure of compliance with the regulations stipulated in Section 7.10 of the Continuing Listing Requirements on Corporate Governance.

## Bank's approach to governance

As the Bank holds the fiduciary responsibility of accepting and deploying vast sums of uncollateralised public funds, the importance of maintaining public trust and confidence for its long-term success and sustainability cannot be overemphasised. To this end, the Bank considers exemplary conduct on the part of all its employees as essential to good governance, be it from the Board of Directors at the highest governing body and the members of Corporate Management, to the Senior Management and the staff at the most junior level. Accordingly, the Bank has put in place a system of good corporate governance - the system of rules, practices, and processes that guides corporate behaviour ensuring a disciplined approach to decision-making and execution with the interests of all stakeholders at heart. This system has been the bedrock of the Bank of its existence for over 100 years and sustainable value creation.

At Commercial Bank, good corporate governance is not limited to legal and regulatory requirements alone but is viewed as a collective responsibility that serves as the foundation for financial integrity, sustainable value creation, and investor confidence. While it is a strong and highly effective risk management tool, it simultaneously paves the way for the Bank to exploit opportunities. Given this huge responsibility, the Bank has an unwavering commitment to good corporate governance and conducts its affairs with utmost intellectual honesty, integrity, and diligence whilst being mindful of its obligations to society and the environment. This tone is set at the topmost echelons of the Bank's Corporate governance structure and echoes through the entire work culture at the Bank.

While the commitment to good corporate governance has been in place for over a century, the underlying framework is regularly reviewed and updated to be in line with the evolving regulations and best practices. The framework has consistently and successfully guided the Board, Board Committees, Management, Management Committees, and staff in performing their stewardship roles. This framework is underpinned by the governance principles of leadership, integrity, effectiveness, accountability, transparency, sustainability, and shareholder engagement. These principles guide the Bank's Management in all its decisions relating to Board oversight, delegation of authority, division of responsibilities, resource allocation, risk management, compliance, performance appraisal and compensation, related party transactions, and financial reporting. The fact that the Bank is the most awarded bank in Sri Lanka bears testimony to its commitment to good corporate governance (Refer pages 34 and 35 for the details of awards and accolades won by the Bank during the year under review).

## Objectives of the Bank's Corporate Governance System

As the largest private sector bank and the third largest bank in Sri Lanka, Commercial Bank touches the lives of millions of people in various capacities, and these stakeholders

*1. Principles referred to in this section are the principles in the Code of Best Practice on Corporate Governance – 2017 issued by CA Sri Lanka.*

in turn have high expectations of their interactions with the Bank. Given that this trust and confidence are imperative for the long-term success of the Bank, the Corporate Governance system has been designed to ensure the following as envisaged in its Business Model:

- Providing adequate oversight on Management to ensure due diligence on key decisions and implementation of strategies as intended
- Establishing clear ownership and accountability on key and emerging risks
- Maintaining efficient systems and processes to speedily identify, assess, and escalate issues, incidents, and risks
- Providing efficient decision-making for timely and effective outcomes to achieve expected results
- Ensuring business and support service functions are sufficiently resourced with the required competencies and maturity
- Ensuring the remuneration framework is properly aligned with the long-term success of the Bank
- Ensuring activities comply with policies, laws, regulations, and ethical standards both to the letter and spirit
- Ensuring assets are safeguarded
- Guiding the Bank and its Group companies to be more stable, resilient, and future-ready
- Creating value sustainably for all stakeholders over the short, medium, and long-term

To achieve the objectives stated above, the Board has ensured the following:

- Clearly demarcating and distributing the roles and responsibilities among the Board, Board Committees, Management, and Management Committees, with the approved charters and Terms of Reference reviewed annually
- Establishing clear reporting lines and frequency of reporting
- Taking into consideration the legitimate needs, interests, and expectations of all the stakeholders
- Upholding the highest degree of fairness, transparency, and accountability
- Setting out principles for countering bribery and corruption and the management of bribery and corruption risk through the adoption of an Anti-Bribery and Anti-Corruption Policy and communicating same to all staff clearly indicating the Bank's stance on zero tolerance for non-compliance
- Adopting a Group Conduct Risk Management Policy Framework
- Aligning remuneration to performance, based on accurate job descriptions, agreed on KPIs and clear communication of expectations from the employees
- Minimising negative externalities to society and the environment
- Living by the claims made and values associated with the Bank's brand reputation
- Establishing a Sustainability Framework to operationalise sustainable banking, responsible organisation, and community sustainability

The key regulatory requirements and voluntary codes relevant to the Bank and elements of its Corporate Governance Framework are depicted in Figure 20 below.

Figure – 20: **Key regulatory requirements, voluntary codes, and elements of Corporate Governance Framework**

**External**

- Continuing Listing Requirements of the Colombo Stock Exchange which addresses, inter alia, the rights of investors
- Directions and Circulars issued by the Securities and Exchange Commission (SEC) of Sri Lanka
- Acts, Circulars, and Gazettes issued by the Taxation Authorities for banks to act as collecting agents
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka which seeks to address how corporates operate while fulfilling the rights of key stakeholder groups
- Banking Act No. 30 of 1988 and amendments thereto which contain provisions for preserving the rights of the depositors and the rights and responsibilities of regulators
- The CBSL Roadmap for Sustainable Finance in Sri Lanka
- Requirements under Sri Lanka Accounting and Auditing Standards Monitoring Board
- Shop and Office Employees Act No. 19 of 1954 and amendments thereto addressing the rights and responsibilities of employees
- Companies Act No. 07 of 2007 and amendments thereto which include provisions for preserving rights of investors
- Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by CA Sri Lanka
- All Directions issued to Licensed Commercial Banks by the Central Bank of Sri Lanka, particularly the Banking Act Direction No. 11 of 2007 on Corporate Governance and other Directions issued by the Central Banks of the countries within which the Bank operates

**Internal**

**Elements of Corporate Governance Framework**

- Articles of Association of the Bank
- Organisational Structure
- Terms of Reference and Charters of Board and Management Committees
- Integrated Risk Management Framework
- Corporate Directors' Handbook
- The Board approved policies on all major operational aspects
- Related Party Transactions Policy
- Code of Ethics for all employees
- The Sustainability Framework

## Governance structure

The Bank has a Board approved organisation chart, clearly depicting work responsibilities and reporting relationships (Refer Annex 7 on pages 440 and 441 for an abridged organisation chart).

The foundation of the governance structure of the Bank is built on well-defined roles and responsibilities, greater accountability, and clear reporting lines of the Board, Board Committees, Management, and Management Committees. The Board and Board Committees assisted by consultants where necessary are responsible for setting the strategy, defining the risk appetite, and exercising oversight while Management and Management Committees are responsible for executing the strategy and driving performance. Responsibility and accountability for conducting operations and assuming risk under the purview of the Management lie with the strategic business units and support functions. The governance structure of the Bank is given in Figure 21 on page 158.

## Board of Directors (Principles A.1, A.1.5, A.4, and A.10)

The Board of Directors plays a pivotal role in demonstrating good corporate citizenship, ethical behaviour, transparency, and accountability whilst also warding off all forms of corporate malfeasance. The Board of Directors – the highest decision-making authority with responsibility for the sustainability of the Bank provides leadership by setting strategic direction, defining risk appetite, approving remuneration policies, and making appointments to the Board and the Corporate Management. Under the due diligence and oversight of the Board, Corporate Management is responsible for the execution of the strategy, day-to-day operations, and implementing an effective system of internal control. The Board and Corporate Management have a clear mutual understanding of their respective roles, delegated authority, and boundaries. Based on trust and respect, the Board and the Corporate Management work within a productive and harmonious relationship which is a pre-requisite for good corporate governance and organisational effectiveness. This has proved to be one of the key reasons for the many achievements of the Bank and its positioning as the benchmark private sector bank in the country. Furthermore, the Bank is one of the two higher tier Domestic Systemically Important Banks (D-SIBs) in Sri Lanka, currently having the Highest Loss Absorbency rate.

The Board comprised eleven Directors at end of 2022 (twelve as of the end of 2021). Each Director is an eminent professional in his or her respective field and holds the skills and expertise necessary to constructively challenge the Management and enrich deliberations on matters set before the Board. They understand and appreciate the dynamism and complexity of the operations of the Bank, its subsidiaries, and its associate, particularly in the wake of emerging global developments threatening to challenge conventional business models. Nine of the Directors (ten as of the end of 2021) are Independent Non-Executive Directors (INEDs), ensuring a higher degree of autonomy. Directors act in the best interest of the shareholders, avoiding any conflicts of interest.

## Diversity and inclusion

> Diversity and inclusion go hand in hand at the Bank, with the voices of a diverse range of people being inclusively heard in the working environment, all towards the overall progress of the Bank.

The Board of Directors mirrors this diversity and inclusion with expertise in accounting, banking and finance, economics, agriculture and chemical industry, engineering, information technology, risk management, manufacturing, healthcare, insurance, logistics, plantations, renewable power, and international capital markets. Having risen to the highest echelons of Government institutions or private sector organisations, they bring their independent judgement to bear on matters reserved for the Board. Bringing together banking, entrepreneurial, investor, and regulatory perspectives, the Board is able to explore matters from diverse points of view to facilitate long-term value creation. The Company Secretary assists the Board in discharging its responsibilities.

The diversity in the Board's composition has enabled it to bring a unique perspective to the Boardroom, enhancing dynamics and effectiveness while promoting a healthy and constructive exchange of views, leaving no room for groupthink.

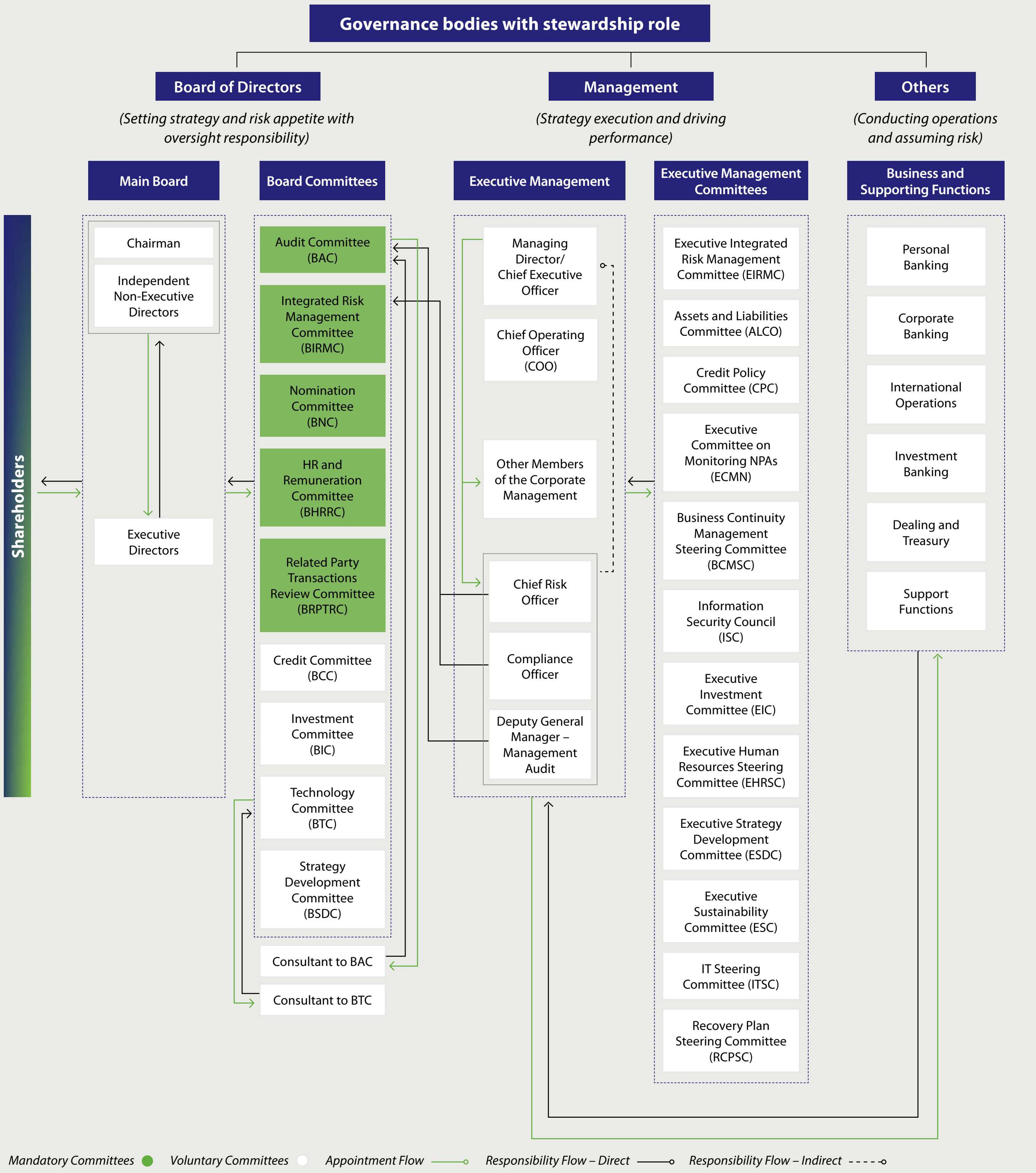
The profiles of the Board members which include the qualifications, memberships in Board Committees, and both current and previous significant appointments as well as the profile of the Company Secretary are given on pages 140 to 145.

## Board process (Principles A.1.6, A.1.7, and A.6)

The Board agrees on a schedule of meetings at the beginning of each year and meets at least once a month. Additional meetings are also convened if required. With the assistance of the Company Secretary and in consultation with the Managing Director/ Chief Executive Officer, the Chairman is responsible for determining and preparing the agenda for the meetings. Board members also have the opportunity to propose items for inclusion in the agenda for discussion. The agenda, together with the accompanying Board papers, is circulated to the members of the Board by the Company Secretary, one week in advance of the dates fixed for the meetings. This provides the Board members with adequate time to study the contents, call for additional information if required, and be prepared for productive deliberations. The agenda and all Board Papers are circulated electronically to the Board members via the BoardPAC, ensuring absolute confidentiality of the information, providing instantaneous delivery, and of equal importance, cost saving on printing of papers, which is one of the many green initiatives of the Bank. This system helped the Bank to conduct Board and Board Committee meetings uninterrupted even during times when the physical presence was challenging. The Directors regularly attend the meetings, physically and/or virtually, and actively participate in deliberations. Urgent Board papers are submitted at short notice or tabled at the meetings on an exceptional basis. Board members typically spend, at a minimum, seven days a month on Board-related matters. In the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board, if required.

Minutes of deliberations and decisions made at the meetings are maintained in sufficient detail. If the need arises, members of Corporate Management are invited to make presentations to the Board on the performance of areas coming under their purview. Members of the Board are also allowed to seek independent professional advice, if necessary, at the Bank’s expense. The Bank has also obtained a Directors’ and Officers’ Liability Insurance Policy, affording them protection against any allegations in the conduct of their duties.

Figure – 21: **Governance structure**



## Conflicts of interest (Principle A.10)

The Bank has a meticulous system in place to avoid conflict of interest. At an individual level, members of the Board declare a situation of a conflicts of interest and withdraw from participating in deliberations on/exercising influence over matters where conflict or the appearance of conflict of interest arises. The actions are appropriately minuted for future reference. In addition, the affiliations and transactions of Directors are regularly reviewed to ensure that there are no conflicts or relationships that might impair Directors' independence. The Board-approved Related Party Transactions Policy of the Bank sets out the procedure to be adopted in granting accommodations to the Directors, their close family members, and entities in which the Directors hold directorships, as permitted by the rules and regulations of the CBSL and within the terms and conditions such facilities are provided to other customers of the Bank. Such facilities, if any, are reviewed and recommended by the Board Credit Committee (BCC) and are submitted to the Board for approval. Once approved, details of such facilities are tabled at the next scheduled meetings of the Related Party Transactions Review Committee (BRPTRC) for information. The section on "Directors" Interest in Contracts with the Bank' on pages 201 and 202 discloses the details of transactions carried out in the ordinary course of business on an arm's length basis with entities where the Bank's Chairman or Directors serve as the Chairman or as a Director in another entity, while Note 62 to the Financial Statements on pages 352 to 356 includes information on Related Party Disclosures. At the point of joining and annually thereafter, the Directors declare their interests, and the necessary procedures in place to ensure that there are no conflicts of interest that will compromise the independence of members. A register of such declared interests is maintained by the Company Secretary and is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007 and amendments thereto.

## Board meetings (Principle A.1.1)

In the year 2022, the Board held fifteen scheduled meetings (fifteen in 2021) of which one meeting (one meeting in 2021) was allocated exclusively to deliberations on Corporate Plan 2023 – 2027 and Budget 2023, with the members of the Corporate Management being present. Thirteen meetings (thirteen meetings in 2021) were devoted to matters including large and material transactions, review of performance, review and approval of a revised budget for 2022, review of policy frameworks, capital augmentation plan, recovery plan, reclassification of financial assets, recovery actions, strategy, review of investment strategies, and risk. Subsequent to the election/re-election of Directors at the Annual General Meeting (AGM) in place of those who retired by rotation, a further meeting was held to review and revise the composition of the Board Committees.

Figure 22 on page 160 provides details of attendance at Board meetings including membership status, mode of attendance, positions held by the Board members in Board committees, and the tenure on the Board.

Such meetings are seen to provide an effective forum for discharging the oversight responsibility of the Board. Although the outbreak of the COVID-19 pandemic resulted in the physical format of these meetings needing to change, creating a new challenge to holding such meetings, the Bank successfully handled the transition to virtual platforms. All meetings of the Board and Board Committees were conducted in accordance with guidelines issued by the health authorities, with limited physical attendance with some Directors connected via virtual platforms. As such, the Bank showcased its ability to adapt to the new normal during the pandemic, thereby demonstrating its commitment to good corporate governance.

The Board continued to play an active role in strategy formulation, providing directions to the Corporate Management for the preparation of the Bank's five-year strategic plan spanning 2023-2027. This plan was then reviewed and approved at a meeting specifically convened for this purpose, in December 2022. The meeting saw members of the Corporate Management present plans on areas coming under their purview, and extensive deliberations were made on said presentations, with the Board exploring and evaluating alternative strategies prior to the approval and allocation of resources for execution of the same. The Board continued to give prominence to liquidity and capital management in the wake of the sharp rise in market interest rates, the deficit in market liquidity, higher credit losses necessitated for foreign currency-denominated Government securities consequent to the downgrade of the country's sovereign rating, and the Government's announcement to restructure foreign currency debt, deteriorating credit quality, and increasing tax burden, all in a bid to support growth and ensure sustainable value creation. One of the regular items on the agenda at the monthly Board meetings is to review performance against the strategic plans, allocating sufficient attention and time to review the progress and to identify areas of concern requiring further attention by the Board. In addition, the Board heightened its attention on credit quality, closely monitored exposures to risk-elevated industries, reviewed the appropriateness of the impairment methodology, monitored movements in staging of exposures, and sought to resolve distressed credit facilities. Furthermore, through periodic presentations made by the respective Chief Executive Officers and/or Managing Directors, the Board also reviewed the performance and future plans of the subsidiaries of the Bank. Due to the new directions issued by the CBSL – Direction No. 13 of 2021 on Classification, Recognition, and Measurement of Credit Facilities and Direction No. 14 of 2021 on Classification, Recognition, and Measurement of Financial Assets other than Credit Facilities in Licensed Banks - which became effective from January 01, 2022, the Board also reviewed the changes these Directions would require to be made to existing policies, processes and newly introduced policies of the Bank.

## Figure – 22: **Composition of the Board and attendance**

| | DOA | Age (Years) | Membership Status | | Meeting Attendance: Eligible to attend/ Attended | Mode of Participation: In Person | Mode of Participation: Virtual | BAC | BIRMC | BNC | BHRRC | BRPTRC | BCC | BTC | BIC | BSDC | Tenure on the Board (Years) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Prof A K W Jayawardane** Chairman | 21.04.2015 | 62 | NED | ID | 15/15 | 15 | 0 | | | C | C | C | C | | | C | 7+ |
| **Mr S Muhseen** Deputy Chairman | 15.02.2021 | 47 | NED | ID | 15/15 | 14 | 1 | | | M | M | | M | C | C | M | 1+ |
| **Mr S C U Manatunge** Managing Director/Chief Executive Officer | 27.07.2018 | 52 | ED | NID | 15/15 | 14 | 1 | BI | M | BI | BI | BI | M | M | M | M | 4+ |
| **Mr K Dharmasiri** Director | 21.07.2015 | 69 | NED | ID | 15/15 | 12 | 3 | M | M | | | | M | M | M | M | 7+ |
| **Mr L D Niyangoda** Director | 26.08.2016 | 66 | NED | ID | 15/15 | 14 | 1 | | M | | | M | | | | M | 6+ |
| **Ms N T M S Cooray** Director | 19.09.2016 | 64 | NED | ID | 15/15 | 15 | 0 | M | | | | | M | | M | M | 6+ |
| **Ms J Lee** Director | 13.08.2020 | 55 | NED | ID | 15/15 | 0 | 15 | M | C | M | M | | | | M | M | 2+ |
| **Mr R Senanayake** Director | 16.09.2020 | 61 | NED | ID | 15/15 | 15 | 0 | C | M | | | M | | | | M | 2+ |
| **Ms D L T S Wijewardena** Director | 31.03.2021 | 49 | NED | ID | 15/15 | 11 | 4 | M | M | | | | | M | | | 1+ |
| **Dr S Selliah** Director | 27.04.2022 | 63 | NED | ID | 11/11 | 11 | 0 | | M | M | M | | | | | M | >1 |
| **Mr S Prabagar** Executive Director/ Chief Operating Officer | 12.05.2022 | 56 | ED | NID | 10/10 | 10 | 0 | BI | BI | | | BI | M | M | M | | >1 |

*DOA – Date of Appointment, ED – Executive Director, NED – Non-Executive Director, ID – Independent Director, NID – Non-Independent Director*

*In Person participation* *Virtual participation* C *– Chairman* M *– Member* BI *– By Invitation*

## Figure – 23: **Composition of Board (as at December 31, 2022)**

### Executive and Non-Executive Directors

Executive Directors
Non-Independent Directors – **2**

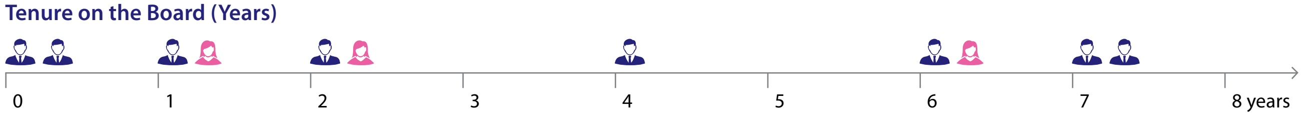
Non-Executive Directors
Independent Directors – **9**

### Board's gender composition

Male – **8**

Female – **3**

### Tenure on the Board (Years)




### Board of Directors' industry/background experience

| Banking and Management | Agriculture Chemical | Finance, Accounting & Management | Medicine, Insurance & Logistics, renewable energy | Science, Engineering and IT | Risk Management and International Capital Markets |
|---|---|---|---|---|---|
| 6 | 1 | 4 | 1 | 2 | 3 |

## Board Committees (Principles A.7.1, D.3, and D.4)

Board Committees are appointed both in terms of compulsory requirements and voluntarily. Out of the Nine Board Committees that have been appointed with delegated authority to strengthen governance and to deal with/decide on certain subject-specific and specialised matters, five are mandatory whilst four are voluntary. Four out of five mandatory Committees have been formed as required by the Direction, while the BRPTRC has been formed as required by the provisions of the SEC of Sri Lanka. The four voluntary Board Committees have been established considering the business, operational, information technology, and strategy development needs of the Bank as permitted by the Bank's Articles of Association. Constituted with Board-approved Terms of Reference, these Committees hold regular meetings – once a quarter at a minimum. The Board Committees have sought guidance and advice from external consultants on several occasions. Furthermore, each of the Directors served in a minimum of three Committees during the year. The Board, however, retains responsibility for all Committee decisions, thereby ensuring the continuance of good corporate governance.

Minutes capturing the proceedings of the Board Committee meetings were regularly tabled at the Board meetings for information/approval of the members, and any concerns identified in relation to specialised areas were also referred to them for oversight. The minutes for these meetings, carefully ascertain and record the views and deliberations of the Directors on issues under consideration.

The composition, areas of oversight responsibility under respective mandates, key activities in 2022, and attendance of members at the Board Committee meetings are given in the respective Board Committee reports given on pages 168 to 187.

## Executive Management Committee

The Executive Management Committee (EMC) comprises all members of the Corporate Management including the Managing Director/Chief Executive Officer (MD/CEO) and the Chief Operating Officer (COO), who are also the two Executive Directors (EDs) of the Bank. The primary responsibility of the EMC is to implement strategy - as approved by the Board under the leadership of the MD/CEO – and deliver on the performance objectives while ensuring that the risks undertaken by the Bank are within the risk profile approved by the Board. The EMC has several responsibilities such as laying down policies, making operational decisions, monitoring financial performance against budgets, reviewing the achievement of strategic goals set for business divisions, allocating capital, monitoring the progress of implementing the Digital Road Map, managing risk, deliberating on human resource development including health and safety, fortifying the compliance function, implementing the Sustainability Framework and solving operational and customer issues. Beyond the above functions, the EMC also reviews and deliberates information prior to Board review, thereby ensuring that the Board is provided with all material information in a timely and detailed manner, thus aiding the Board to effectively fulfil their oversight responsibilities as Directors. In addition, the EMC meetings provide all members with the opportunity to gain a 360° view of the Group's operations.

Members of the Corporate Management including the MD/CEO review the operations of the subsidiaries and the associate of the Bank to safeguard the Bank's interest and ensure a reasonable return thereon.

The names, designations, qualifications, and experience of the members of the EMC are given under Corporate Management and Profiles on pages 146 to 149, while the names of Senior Management related to the Bank's operations in Sri Lanka, Bangladesh, the Maldives, Myanmar, and the subsidiaries in Sri Lanka are given on pages 150 to 153.

## Management Committees

In addition to the Board, the Board Committees, and the EMC, several other Management Committees have been established for good governance along subject-specific lines to facilitate decision-making and executing Board-approved strategies. These Management Committees operate under delegated authority from the MD/CEO.

Based on approved Terms of Reference, the Management Committees operate under a structure and a process similar to that of the Board Committees. Detailed minutes are recorded by the Secretary of the respective Committee, which are then submitted to the relevant Board Committees after approval by the MD/CEO. These Committees undertake extensive deliberations, cooperate across departments, and debate on matters considered critical for the Bank's operations as described in the Figure 24 below.

Figure – 24: **Executive Management Committees**

### Executive Integrated Risk Management Committee (EIRMC)

**Purpose and tasks**

Monitors and reviews all risk exposures and risk-related policies and procedures affecting credit, market and operational areas in line with the directives from the BIRMC.

**Composition**

MD/CEO, COO and key members of Integrated Risk Management, Personal Banking, Corporate Banking, Treasury, Internal Audit, Compliance, Finance and Information Security Divisions.

**Meeting frequency:** Monthly

### Assets and Liabilities Committee (ALCO)

**Purpose and tasks**

Optimises the Bank's economic goals whilst maintaining liquidity and market risk within the Bank's predetermined risk appetite.

**Composition**

MD/CEO, COO and key members of Treasury, Corporate Banking, Personal Banking, Integrated Risk Management, Marketing and Finance Divisions.

**Meeting frequency:** Fortnightly

### Credit Policy Committee (CPC)

**Purpose and tasks**

Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of the Bank.

**Composition**

MD/CEO, COO and key members of Corporate Banking, Personal Banking, Integrated Risk Management, Internal Audit, Marketing and Credit Supervision & Recoveries Divisions.

**Meeting frequency:** Quarterly

### Executive Committee on Monitoring NPAs (ECMN)

**Purpose and tasks**

Reviews and monitors the Bank's Non-Performing Advances (NPAs) above a predetermined threshold to initiate timely corrective actions to prevent/reduce credit losses to the Bank.

**Composition**

MD/CEO, COO and key members of the Corporate Banking, Personal Banking, Credit Supervision & Recoveries, and Integrated Risk Management Divisions.

**Meeting frequency:** Monthly

### Business Continuity Management Steering Committee (BCMSC)

**Purpose and tasks**

Directs, guides, and oversees the activities of the Business Continuity Plan of the Bank in accordance with the Bank's strategy.

**Composition**

COO and key members of Human Resources Management, Personal Banking, Corporate Banking, IT, Services, Operations, Integrated Risk Management and Internal Audit.

**Meeting frequency:** Quarterly

### Information Security Council (ISC)

**Purpose and tasks**

Focuses continuously on meeting the information security objectives and requirements of the Bank in line with emerging technology and Bank's Strategy.

**Composition**

Composition

MD/CEO, COO and key members of Human Resources Management, Services, Operations, IT and Information Security, Internal Audit, Integrated Risk Management, Compliance and Legal Divisions.

**Meeting frequency:** Monthly

### Executive Investment Committee (EIC)

**Purpose and tasks**

Oversees investment activities by providing guidance to the management on significant investment decisions and reviews performance.

**Composition**

MD/CEO, COO and key members of Corporate and Personal Banking, Investment Banking, Treasury, Finance and Planning Divisions.

**Meeting frequency:** Quarterly

### Executive Human Resources Steering Committee (EHRSC)

**Purpose and tasks**

Setting guidelines and policies on any matter that may affect the Human Resource Management of the Bank and make recommendations on policy matters to the BHRRC and/or address any issues that may need to be reviewed at Board level.

**Composition**

MD/CEO, COO and key members of Human Resources Management, Personal Banking, Corporate Banking, Marketing, Finance and Treasury, Integrated Risk Management, Internal Audit and IT Divisions.

**Meeting frequency:** Quarterly

### Executive Strategy Development Committee (ESDC)

**Purpose and tasks**

Based on overall insights provided by the BSDC, formulates strategies geared for the sustainable development of the Bank. Monitors the implementation of the approved strategic plan and the progress made against strategic milestones and goals.

**Composition**

MD/CEO, COO and key members of Human Resources Management, Marketing, Personal Banking, Corporate Banking, Treasury, Finance and Planning, Integrated Risk Management and IT Divisions.

**Meeting frequency:** Quarterly

### Executive Sustainability Committee (ESC)

**Purpose and tasks**

To help advance the Sustainability agenda and performance of the Bank, directing Banks' activities to be in line with the regulatory requirements of the CBSL on Sustainable Finance Roadmap and Principles of the Sri Lanka Banks' Association sustainable banking voluntary initiatives, while assisting the Board to oversee and approve the implementation of sustainable policies, objectives and targets.

**Composition**

MD/CEO, COO, and key members of Integrated Risk Management, Services, Corporate Banking, Personal Banking, Investment Banking, Human Resource Management, and Retail Banking & Marketing.

**Meeting frequency:** Bi-annually

### IT Steering Committee (ITSC)

**Purpose and tasks**

Assist the Management Committee and the Board of Directors to fulfil its overseeing responsibilities with respect to the overall role of technology, in executing the business strategy of the Bank including but not limited to, major technology investment, technology strategy, operational performance and technology trends that may affect future banking.

**Composition**

COO, and key members of Corporate Banking, Personal Banking, Treasury, Human Resource Management, Integrated Risk Management, Retail Banking & Marketing, Management Audit, IT, Services and Operations.

**Meeting frequency:** Monthly

### Recovery Plan Steering Committee (RCPSC)

**Purpose and tasks**

Exercises the powers and authority entrusted by the Board/Corporate Management with respect to formulating, maintaining, regularly reviewing, executing, coordinating, activating the Bank's recovery plan to deal with shocks to capital, liquidity and all other aspects that may arise from institution-specific market wide stresses.

**Composition**

COO, and key members of planning, Integrated Risk Management, Finance, Corporate Banking, Personal Banking, Treasury, Human Resource Management, Marketing, Management Audit, Compliance, IT, and Operations.

**Meeting frequency:** Quarterly

### Roles, responsibilities, and powers of the Board (Principles A.1.2 and A.1.3)

The role of the Board of Directors and their responsibilities are set out in the Board Charter, which includes a schedule of powers reserved for the Board as detailed below:

### Role of the Board

- To represent and serve the interests of shareholders by overseeing and appraising the Bank's strategies, policies, and performance
- To provide leadership and guidance to Management for the execution of strategies
- To optimise performance and build sustainable value for shareholders in accordance with the regulatory framework and internal policies
- To establish an appropriate governance framework
- To ensure regulators are apprised of the Bank's performance and any major developments
- To review the performance of the business against the goals and objectives at regular intervals

### Key responsibilities

- Selecting, appointing, and evaluating the performance of the MD/CEO
- Setting strategic direction and monitoring its effective implementation
- Establishing systems of risk management, internal control, and compliance
- Ensuring the integrity of the financial reporting process
- Developing a suitable corporate governance structure, policies, and framework
- Strengthening the safety and soundness of the Bank
- Reviewing the performance of the Bank and the Group companies
- Appointing members to the Board of Directors to fill casual vacancies
- Appointing members of the Corporate Management of the Bank
- Appointing and overseeing the External Auditors' Responsibilities
- Approving Interim and Annual Financial Statements for publication

### Powers reserved for the Board

- Approving major capital expenditure, acquisitions, and divestitures, and monitoring capital management
- Appointing the Board Secretary in accordance with Section 43 of the Banking Act No. 30 of 1988
- Seeking professional advice in appropriate circumstances at the Bank's expense
- Reviewing, amending, and approving governance structures and policies

### Board's role in risk management (Principle D.2)

Risk management is key to the long-term sustainability of the Bank. The Board, as the highest decision-making authority in the Bank, is responsible for implementing an effective risk management mechanism across the Group. With the support of the BIRMC, the Board has devised an effective risk management framework that sets the risk appetite and tolerance limits, facilitating monitoring of the risk profile on a regular basis through risk reports submitted to the Board. Risk management has continued to be one of the key and regular items on the agenda of Board and relevant Board Committees meetings. Clarifications were sought from the respective members of the Management for any deviations from the agreed risk profile and necessary guidance was given for taking mitigatory action. Further, risks related to the business strategies were carefully reviewed at a special Board meeting held to review the Budget for the year 2023 and deliberate on the strategic plan 2023-2027 (Refer Risk Governance and Management on pages 203 to 228 for further details).

Figure – 25: **Board Highlights 2022**

1. Approval/recommendation of a First and Final dividend for the year ended December 31, 2021 of Rs. 7.50 per share, constituting a total sum of Rs. 8,956,659,742.50, distributed by way of cash of Rs.4.50 per share and by the allotment and issue of new shares of Rs. 3.00 per share.
2. Conducted the Annual General Meeting virtually by using a digital platform in line with the guidelines issued by the regulators.
3. Approval/recommendation to issue and allot up to 100,000,000 fully paid, Basel III Compliant – Tier II, Subordinated, Redeemable Debentures at a par value of Rs. 100/- each.
4. Conducted an Extraordinary General Meeting to obtain approval for the debenture issue 2022 in the form of a physical meeting.
5. In view of the retirement of the former Chairman, the existing Deputy Chairman at that time was appointed as the Chairman of the Bank in March 2022, and a new Deputy Chairman was appointed from and among the existing members of the Board.
6. In view of the retirement of the former Managing Director, the existing Chief Operating Officer at that time was appointed the Managing Director of the Bank in May 2022, and a new Director was appointed to the Board as a non-independent/Executive Director/ Chief Operating Officer.
7. A new independent/non-executive Director was appointed to further strengthen the Board.
8. Reviewed the Composition of Board and Board Committees, respective Committee Charters and Terms of Reference.
9. The Board of Directors participated in a high-level web conference on Key Aspects of Anti Money Laundering/ Combating Financing of Terrorism compliance for the Board of Directors and Key Management Personnel conducted by the Central Bank of Sri Lanka.
10. Conducted a training programme on Information Security Awareness for the Board of Directors by an external resource person.
11. Reviewed all major policy documents.
12. Annual strategy meeting with Corporate Management Team.
13. Based on recommendations made by the Board Nomination Committee, the Board approved the appointment of a Chief Information Officer.
14. Based on recommendations made by the Board Nomination Committee, the Board approved the appointment of an Assistant General Manager, the re-designation of a Deputy General Manager, and the promotion of three Assistant General Managers to the Deputy General Manager Grade.
15. Approved a Group Conduct Risk Management Policy Framework to ensure fair treatment to customers, protection of financial markets, and promotion of competition.

### Segregation of roles of Chairman and Chief Executive Officer (Principles A.2 and A.3)

The positions of the Chairman and the Chief Executive Officer are separated, to facilitate the balance of power and authority, and to adhere to the best practice in Corporate Governance. The Chairman is a Non-Executive Independent Director while the Chief Executive Officer is an Executive Director appointed by the Board. Their respective roles are clearly set out in an approved Board paper and the Board Charter of the Bank.

Accordingly, as set out in the said Board paper and the Board Charter, a clear and effective separation of accountability and responsibility has made the role of the Chairman distinctive. By providing leadership to the Board, preserving order, and facilitating the effective discharge of its duties, the Chairman promotes good corporate governance and the highest standards of integrity, and probity throughout the Group. He ensures that the Board receives all information necessary for making informed decisions in discharging its responsibilities. The Chairman also ensures that a balance of power is maintained between executive and non-executive Directors and the Board is in full control of the Bank's affairs and is alert to its obligations to all stakeholders. Furthermore, he also ensures the effective participation of all Directors in Board deliberations and maintains open lines of communication with members of the Corporate Management, providing an effective platform for deliberating strategic and operational matters.

On the other hand, the role of the Chief Executive Officer, as set out in the Board Charter, is to conduct the management functions as directed by the Board. The corporate objectives and the boundaries of his authority as Chief Executive Officer are set by the Board, while his duties and responsibilities are jointly developed.

The Chief Executive Officer leads the Management team in the day-to-day operations and ensures the implementation of strategies, plans, and budgets approved by the Board. The Chief Executive Officer conducts the affairs of the Group, upholding good corporate governance, and the highest standards of integrity and probity as established by the Board.

While they have separate functions, the Chairman and the Chief Executive Officer meet regularly to set the Board agenda, deliberate on current and future developments, and discuss any material issues impacting the Bank, thereby working together toward the Bank's overall progress.

### Role of Independent Non-Executive Directors

The Bank has a strong element of independence on the Board, with nine out of the eleven Directors as of December 31, 2022 being INEDs. The only connection of the independent Directors with the Bank and with other Companies in the Group is their directorships, thereby ensuring that their judgement is unlikely to be influenced by external considerations. The presence of INEDs is expected to complement the skills and experience of the other Board members through the INEDs conveying an objective and independent view on matters, using their expertise to challenge the Board and the Management constructively, and by assisting in guiding the strategy.

### Role of the Company Secretary (Principle A.1.4)

The Company Secretary plays a vital role in facilitating good Corporate Governance. His responsibilities encompass activities relating to Board meetings, general meetings, Articles of Association, reports, accounts and documentation, Corporate Governance, and Stock Exchange requirements. Primary responsibilities include:

- Assisting the Chairman in conducting the Board Meetings, AGMs, and EGMs in accordance with the Articles of Association, the Board Charter, and relevant legislation
- Maintaining minutes of meetings and statutory registers, and filing statutory returns on time
- Monitoring all Board Committees to ensure they are properly constituted and have clearly defined Terms of Reference
- Facilitating best practices of Corporate Governance including assisting the Directors with their duties and responsibilities
- Facilitating access to legal and independent professional advice in consultation with the Board, where necessary
- Ensuring the Bank complies with its Articles of Association incorporating the required amendments, following proper procedure
- Coordinating the publication and distribution of the Bank's Annual Reports and Accounts and interim financial statements, and preparing the Directors' Report
- Monitoring and ensuring compliance with Listing Rules including required disclosure on related parties and related party transactions, and maintaining cordial relationships with the CSE, share and debenture holders
- Communicating promptly with the regulators

The appointment and removal of the Company Secretary are done by the Board.

### Appointments and retirements/ resignations of Directors (Principle A.7)

The appointment of new Directors is based on an annual assessment of the combined knowledge, experience, and diversity of the Board, with new Directors chosen on their ability to bring added perspective and ensure the continued effectiveness of the Bank's strategic plans. Accordingly, the nomination of candidates for appointment as Directors takes place under a formal and transparent procedure formulated by the BNC. The resumés of potential candidates are carefully evaluated by the BNC prior to them being recommended to the Board for their consideration as NEDs. Such nominations may also include an interview with the candidate.

A similar process is followed when appointing EDs, with the exception of when candidates are selected from the Corporate Management of the Bank.

As required by the Listing Rules, appointments of new Directors to the Board are promptly communicated to the CSE through announcements, subsequent to obtaining approval from the CBSL for their fitness and propriety. The announcements typically include a brief resumé of new Directors, relevant expertise, key appointments, shareholdings, and status of independence. In addition, all the staff members of the Bank are informed of any new appointments to/resignations and retirements from the Board as well as the appointment of Directors to the positions of the Chairman and the Deputy Chairman via internal circulars.

The retirements or resignations of Directors are promptly communicated to the CSE as required by the Listing Rules.

During the year under review, there were two new additions and three retirements including the former Chairman and the former Managing Director from the Board of Directors, the details of which are given in Figure 22 titled Composition of the Board and Attendance on page 160.

## Re-election/election of Directors (Principle A.8)

The Articles of Association of the Bank state that the two longest-serving NEDs must offer themselves for re-election at each AGM in rotation, with the period of service being considered from the last date of re-election or appointment. If two or more Directors qualify for re-election in a particular year, the Directors may decide amongst themselves, either by considering the affidavits and declarations submitted by them and all other relevant issues or by drawing lots to determine which Directors will offer themselves for re-election. Accordingly, Ms N T M S Cooray and Ms J Lee, the two longest-serving Directors since their last re-election will be seeking re-election at the forthcoming AGM to be held on March 30, 2023. In addition to the above clauses, if a Director has been appointed as a result of a casual vacancy that has arisen since the previous AGM, that Director will also offer himself/herself for election at the immediately succeeding AGM. Accordingly, Dr S Selliah, Ms S Prabagar and Mr D N L Fernando who were appointed to the Board in April 2022, May 2022 and in February 2023 respectively, to fill casual vacancies will offer themselves for re-election at the forthcoming AGM.

## Induction and training of Directors (Principle A.1.8)

On appointment, Directors are provided with an induction pack that outlines the main areas that require familiarisation. The pack includes the Articles of Association, the Banking Act Directions, the Corporate Directors' Handbook published by the Sri Lanka Institute of Directors, the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka, the Bank's organisational structure, copies of the Board Charter and the Board Related Party Transactions Policy, and the most recent Annual Report of the Bank. They are also given access to the electronic support system which has archived minutes of meetings held over the past ten years. All Directors are encouraged to obtain membership in the Sri Lanka Institute of Directors which conducts useful programmes to support Directors. Furthermore, it is mandatory for Directors to attend Director Forums organised by the CBSL. As additional support, members of the Corporate Management and external experts make regular presentations on the business environment in relation to the operations of the Bank, which enables newly appointed Directors to familiarise themselves with the banking operations.

**Remuneration and Benefits Policy**

The Remuneration and Benefits Policy seeks to provide a distinctive value proposition to current and prospective employees to attract and retain employees with the skills and values that are in line with the business needs of the Bank. The Policy also provides a framework for the Bank to design, administer, and evaluate effective reward programmes, thereby inspiring and motivating desired behaviours, and enabling proper alignment of remuneration with the long-term success of the Bank.

## Directors' and Executive remuneration (Principles A.10, B.1 and B.3)

The Bank has a number of processes in place to ensure that no individual Director is involved in determining his or her remuneration but is instead part of a larger deciding process that makes final decisions. Primarily, the BHRRC- which consists entirely of NEDs who also meet the criteria for independence as set out in the relevant regulations on corporate governance- is responsible for making recommendations to the Board regarding the remuneration of the Directors and executives. The BHRRC in consultation with the MD/CEO and after obtaining professional advice, where necessary, makes such recommendations.

Remuneration for Directors and executives is further set out with reference to the Remuneration and Benefit Policy. The remuneration for NEDs is set by the Board as a whole. In order to provide fair judgements when discharging their duties on remuneration, the Board and the BHRRC engage the services of HR professionals on a regular basis as well.

Details of the Remuneration paid to Directors are given in Note 21 to the Financial Statements on page 281.

## The level and make-up of remuneration (Principle B.2)

It is the responsibility of the BHRRC to ensure that the remuneration of both EDs and NEDs is sufficient to attract eminent professionals to the Board and retain them to drive the performance of the Bank. The Bank has remuneration policies that are attractive, motivating, and capable of retaining high-performing, qualified, and experienced employees.

With the assistance of professionals, the BHRRC structures the remuneration packages and benchmarks them with the market on a regular basis to ensure that total remuneration levels remain competitive to attract and retain key talent whilst balancing the interests of the shareholders. The total remuneration of EDs and other members of the Corporate Management includes three components – guaranteed remuneration (the fixed component), annual performance bonus (a variable component), and the ESOP (a variable component). Special emphasis is paid to making the basis of granting ESOPs and their features transparent, prior to seeking approval from the shareholders.

Guaranteed remuneration comprises the monthly salary and allowances determined with due reference to the qualifications, experience, levels of competencies, skills, roles, and responsibilities of each employee. These are reviewed annually and adjusted for factors such as promotions, performance, and inflation. The annual performance bonus is based on the degree of achievement on a multi-layered performance criteria matrix which is clearly communicated to the relevant category of employees at the beginning of each year. The Bank maintains a regular dialogue and consults when necessary its two employee associations – the Association of Commercial Bank Executives and the Ceylon Bank Employees' Union (CBEU). In early January 2021, the Bank signed the Collective Agreement with the CBEU covering a three-year period from 2021-2023, after extensive deliberations.

With a view to motivate employees to commit to long-term value creation, improve overall performance, and increase staff retention while raising equity funding, the Bank has structured many Employee Share Option Plans (ESOPs) since 1997. This entitles the eligible employees to buy a fixed number of shares at a price to be determined based on the pre-agreed formula over the vesting period. The Bank has duly obtained the approval of shareholders for all these ESOPs at Extraordinary General Meetings. The EDs, being employees of the Bank, are also eligible for these ESOPs.

Details of the ESOPs and the eligibility criteria are given in Note 52 to the Financial Statements on "Share-based Payment" on pages 335 to 340.

While employment contracts do not contain any commitments for compensation or early terminations, there were no instances of early termination during the year that required compensation.

## Board and Board Committee evaluations (Principle A.9)

As set out in the Direction, the Code, and the other applicable regulations, the Board and the Board Committees annually appraise their own performance to ensure that they are discharging their responsibilities satisfactorily in accordance with the Board Charter. This process requires each Director to fill out a Board Performance Evaluation Form incorporating all criteria specified in the Board Performance Evaluation Checklist of the Code. The responses are then collated by the Company Secretary and submitted to the BNC for consideration. These are subsequently discussed at a Board meeting. Board evaluations for 2021 and 2022 were taken up at the Board Meetings held in February 2022 and February 2023 respectively.

## Appraisal of the Chief Executive Officer (Principle A.11)

With the assistance of the BHRRC, the Board assesses the performance of the Chief Executive Officer annually. This assessment is based on criteria agreed upon at the beginning of each year and consists of short, medium, and long-term objectives with financial and non-financial targets whilst also considering the changes in the operating environment. The Chairman discusses the evaluation with the Chief Executive Officer and provides him with formal feedback. The Chief Executive Officer's responses to the appraisal are given due consideration prior to it being approved. This exercise is finalised within three months from the financial year end.

## Shareholder engagement and voting (Principles C.1, C.2, E, and F)

The Bank actively engages with shareholders and potential investors as an aspect of good corporate governance and has established a structured process to facilitate the same. The Board-approved Shareholder Communication Policy is in place to ensure effective and timely communication of material matters to shareholders. The Bank maintains several communication channels with the shareholders which include the annual report, AGMs and EGMs, interim financial statements, announcements to the CSE, press releases, the Bank's website, shareholder surveys on a need basis, and the investor feedback form on the Annual Report (Refer Table 3 on pages 38 and 39 on "How we connect with our stakeholders" for more details in this regard).

During the year, shareholders were notified - either through announcements made to the CSE or via media – about the quarterly results, dividend declaration for 2021, annual financial statements for 2021, interim financial statements for 2022, disclosure on Fitch Ratings Preview, appointments and retirements of Directors, the listing of shares issued as a part of the final dividend for 2021 as well as new shares listed consequent to the exercising of options under employee share option schemes, date of the Annual General Meeting 2023, dealings in shares of the Bank by Directors and related entities, Basel III compliant convertible debenture issue, and the extraordinary general meeting for the Basel III compliant convertible debenture issue. The Bank's website was updated with new value-added features during the year and has a dedicated page for investors, 'Investor Relations' for investors which include interim financial statements and annual reports. The Bank's annual report is offered in both PDF and interactive formats, providing readers with a choice for viewing. The interactive report also features a tab for investor feedback.

The Board is fully committed to treating all shareholders equitably while recognising, protecting, and facilitating their rights through open communication. The Bank arranged to publish the interim and annual financial statements in the newspapers in all three mediums within statutory deadlines as per the Directions issued by the CBSL, and also submitted interim and annual financial statements to the CSE within the stipulated timeframes in terms of the Listing Rule No. 7.4 of the CSE. In addition, the Bank issues commentaries on the interim financial statements in the form of press releases to the media.

The Bank always encourages shareholders to participate in the AGMs and the EGMs and exercise their votes. To this end, the Bank circulates clear instructions on procedures governing voting along with every notice of AGMs/EGMs. Shareholders play a key role in the re-election of Directors and the External Auditor, and vote on all matters for which notice is given including the adoption of the annual report and accounts. Although the Bank could not conduct the AGM with the physical presence of its shareholders due to the outbreak of COVID-19 (as per the Notice of Meeting published in the Annual Report 2021), after giving due notice and publicity, it successfully conducted the Fifty-Third AGM as a virtual meeting. The AGM was conducted fully adhering to the guidelines issued by the Government health authorities and regulators while ensuring maximum shareholder participation, providing every opportunity for shareholders to clarify matters of interest to them. A total of 46 Voting and 1 Non-Voting shareholder participated in the Fifty-Third AGM held virtually on March 30, 2022, while further 137 Voting shareholders and 8 Non-Voting shareholders exercised their right to vote through proxy. The 8 Non-Voting shareholders exercised their right to vote through proxy strictly in relation to matters designated for their vote.

Shareholder approval was received at an EGM held on October 31, 2022 conducted with the physical attendance of shareholders for issuing Basel III compliant convertible debentures for augmenting Tier II capital and to support future lending growth of the Bank, raising Rs. 10.000 Bn. in Tier II capital consequently.

A tabulation of the details of shareholder attendance at AGMs during the past five years is given below:

Table – 47: **Attendance at AGMs – 2018 to 2022**

| | Voting shareholders (including proxies) | | | Non-voting shareholders (including proxies) | | |
|---|---|---|---|---|---|---|
| Year of the AGM | Number of attendees | Shareholding | % of total shareholding | Number of Attendees | Shareholding | % of total shareholding |
| 2022 | 183 | 795,203,283 | 72.33 | 9 | 4,197,212 | 6.17 |
| 2021 | 169 | 795,052,531 | 72.32 | 19 | 4,326,942 | 6.36 |
| 2020 | 119 | 672,118,061 | 69.92 | 19 | 3,132,256 | 4.72 |
| 2019 | 346 | 703,703,954 | 73.21 | 145 | 12,048,304 | 18.18 |
| 2018 | 317 | 713,801,082 | 75.52 | 119 | 14,344,030 | 22.06 |

## Whistleblowing

The Bank has adopted a Whistleblowers' Charter to deter, detect, and address any genuine concerns of malpractices and unethical behaviour, with the Compliance Officer being appointed to manage the Bank's whistleblowing processes.

In addition, measures have been put in place to protect whistleblowers who act in good faith in the interest of the Bank. The Bank undertakes to maintain the utmost confidentiality of the staff who raise concerns or make serious specific allegations of malpractice or unethical behaviour. In this way, the Bank aims to promote a healthy workplace that practices good governance from the lowest to the highest tiers.

## Anti-Bribery and Anti-Corruption

The Bank reviewed and updated the Board-approved Anti-Bribery and Anti-Corruption Policy during the year, which sets out principles for countering bribery and corruption in the Bank. The principles also set out the management of bribery and corruption risk by requiring the Bank, Bank personnel, and defined third parties to commit to countering bribery and corruption in all forms in relation to transactions routed through or involving the Bank.

The Bank has zero tolerance for any form of bribery and corruption and will treat potential instances of bribery or corrupt behaviour as a threat to its integrity and reputation as a business. The Bank developed the Policy in accordance with these commitments as well as in adherence to the applicable laws and regulations to promote a culture of compliance. As set out in this Policy, all employees are responsible for the prevention and mitigation of bribery and corruption within their own roles and responsibilities.

In addition, every single employee of the Bank has been issued with a Code of Ethics containing guidelines that encompass a wide range of aspects, which, inter-alia, include the prevention of insider dealing in securities, outlines the internal rules on the purchase/sale of the Bank's shares, notes down the Gift Policy, highlights how to manage conflicts of interest, provides information on combating financial crimes, and discusses the importance of respecting communities and the environment etc.

A detailed discussion is given in the section on Sustainable Banking – Value Creation on page 64.

## Group Conduct Risk Management Policy Framework

During the year under review, the Bank adopted a Group Conduct Risk Management Policy Framework with a view to further strengthen risk management and corporate governance by ensuring that the Bank does not engage in any action that harms customers, negatively impacts market stability, and prevents effective competition. It is expected to establish a risk culture that not only addresses the risk of misconduct but also highlights clear accountability of actions through a preventive approach, by ensuring proper customer onboarding practices and transparency in fees and charges, and avoiding fraudulent activities, insider trading, improper financial advice to customers, mis-selling of financial products, tax avoidance, collusion with financial markets, and inaccurate financial and regulatory disclosures.

# Board Committee Reports

## Report of the Board Audit Committee

The Committee focused on compliance with CBSL Directions and SLFRS on classification, recognition and measurement of financial assets and reviewed implementation of new IT projects to support them.

**R Senanayake**
Chairman

### Composition of the Committee

The composition of the Board Audit Committee (the BAC) during the year under review is given on page 169. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

### Charter of the Committee

The Board approved Charter of the BAC (the Committee) clearly defines the Terms of Reference of the Committee. It is annually reviewed to ensure that new developments relating to the Committee's functions are addressed. The Charter of the Committee was last reviewed and approved by the Board on October 18, 2022.

The Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal controls and internal/external audits.

The Committee has full access to information, cooperation from Management and discretion to invite any Director or Executive Officer to attend its meetings.

The Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" and its subsequent amendments (hereinafter referred to as the Direction), "Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange", and the "Code of Best Practice on Corporate Governance", issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) further regulate the composition, role and functions of the Committee.

The Committee is empowered by the Board to:

- Ensure that financial reporting systems in place are effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, the Management and other stakeholders.
- Review the appropriateness of accounting policies and ensure adherence to statutory and regulatory compliance requirements and applicable accounting standards.
- Ensure that the Bank adopts and adheres to high standards of corporate governance practices, conforming to the highest ethical standards and good industry practices in the best interest of all stakeholders.
- Evaluate the adequacy, efficiency, and effectiveness of risk management measures, internal controls including information systems controls and governance processes in place to avoid, mitigate, or transfer current and evolving risks.
- Monitor all aspects of Inspections, Information Systems Audit and External Audit program of the Bank and review Internal and External Audit Reports for follow up with the Management on responses to their findings and recommendations.
- Review the Interim and Annual Financial Statements of the Bank in order to monitor the integrity of such Statements prepared for disclosure, prior to submission to the Board.

### Activities in 2022

The Committee held eight meetings during the financial year ended December 31, 2022. Proceedings of these meetings with adequate details of matters discussed were regularly reported to the Board.

Representatives of the Bank's External Auditors, Messrs Ernst & Young too participated in all eight (08) meetings during the year by invitation. The Committee also invited members of the Senior Management of the Bank to participate in the meetings from time to time on an as needed basis.

### Reporting of financial position and performance:

The Committee;

- assisted the Board in its oversight on the preparation of Financial Statements to evidence a true and fair view on financial position and performance. This process is based on the Bank's accounting records and in accordance with the stipulated requirements of the Sri Lanka Accounting Standards. In fulfilling its oversight responsibilities, the Committee reviewed and discussed the Interim and Annual Financial Statements of the Bank and the Group, including the acceptability of the accounting principles and the reasonableness of significant estimates and judgment.
- reviewed and assessed the Bank's ability to continue as a Going Concern and the adequacy of its resources to be in business for the foreseeable future.

- reviewed a competitor analysis of financial statements of peer banks on a quarterly basis to draw insights on their performance viz a viz the Bank to recommend any improvements that can be institutionalised.
- engaged the services of a Consultant to assist it in carrying out its oversight activities and evaluated his performance annually.
- reviewed the Tax Assessments outstanding and action initiated for follow up for resolution through regular reports submitted by the Chief Financial Officer.
- assessed the prevailing internal controls including information systems controls, procedures and expressed the view that adequate controls and procedures were in place to provide reasonable assurance to the effect that the Bank's assets including the information assets are safeguarded and the financial position of the Bank is well monitored and accurately reported.

### Policy on adoption of Sri Lanka Accounting Standards SLFRS 9:

The Committee reviewed the revised policy document on Adoption of the Sri Lanka Accounting Standard SLFRS 9 on Financial Instruments during the year 2022 and made recommendations for implementation.

The Committee also followed up and monitored the progress of the implementation of IT Systems and automation of the processes for the preparation of Financial Statements as per the Sri Lanka Accounting Standards and Regulatory Requirements.

### Compliance with new Banking Act Directions by CBSL:

The Committee reviewed the Bank's readiness and implementation of the Banking Act Direction No. 13 on Classification, Recognition and Measurement of Credit Facilities and No. 14 on Classification, Recognition and Measurement of Financial Assets other than Credit Facilities, issued by the CBSL.

### Internal Capital Adequacy Assessment Process (ICAAP):

The Committee reviewed the effectiveness of internal control mechanism in place to meet the regulatory requirements on ICAAP and the mechanism in place to ensure integrity, accuracy, and reasonableness in capital assessment process of the Bank for the year 2022, as per the Section 10 (in Pillar II – Supervisory Review Process) of the Banking Act Direction No. 01 of 2016 on "Regulatory Framework on Supervisory Review Process".

### Oversight on regulatory compliance:

The Committee also ensured that the Bank complies with all regulatory and legal requirements and closely scrutinised compliance with mandatory banking and other statutory requirements and the systems and procedures that are in place. The quarterly reports submitted by the Assistant General Manager – Compliance were used by the Committee to monitor compliance with all such legal and statutory requirements. The Bank's Inspection Department has been mandated to conduct independent test checks covering all regulatory compliance requirements, as a further monitoring measure.

The Committee monitored the progress on implementation of the recommendations made in the Statutory Examination Reports of the Central Bank of Sri Lanka (CBSL) through regular follow-up reports tabled during the year 2022.

### Identification of risks and control measures:

The Bank has adopted a risk-based audit approach towards assessing the effectiveness of the internal control procedures in place to identify and manage all significant risks and that these are being reviewed by the Committee. During the year, special emphasis was given to enhance the scope of internal audit work to cover testing of controls over granting debt moratoriums, relief measures introduced by the regulator and recoveries.

The Committee sought and obtained the required assurances from Business Units on the remedial action in respect of the identified risks to maintain the effectiveness of internal control procedures.

### Implementation of new system solutions at the Finance Department

The Committee continuously reviewed progress on implementation of OneSumX software solution, an ongoing major system implementation project at the Finance Department, which is being implemented to streamline SLFRS based financial reporting. In reviewing the progress, the Committee emphasis was directed on all the components relating to ECL computation; portfolio segmentation, staging criteria, PD/LGD computation methodologies etc., and made recommendations to further improve the process.

### Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Mr R Senanayake* Chairman | 08/08 |
| Mr K Dharmasiri* Director (Retired w.e.f. January 08, 2023) | 08/08 |
| Ms N T M S Cooray* Director | 08/07 |
| Ms J Lee* Director | 08/08 |
| Ms D L T S Wijewardena* Director | 08/07 |

### Regular attendees

| | |
|---|---|
| Mr K D N Buddhipala<br>Chief Financial Officer | 08/08 |
| Mr J Premanath<br>Deputy General Manager – Management Audit | 08/08 |
| Mr M Jayesinghe<br>Country Managing Partner – M/s Ernst & Young | 08/08 |
| Mr P L Perera<br>Director –Assurance<br>M/s Ernst & Young | 08/08 |

### Regular attendees by invitation

| | |
|---|---|
| Mr S C U Manatunge<br>Managing Director/<br>Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022. Attended 03 meetings by invitation as the Chief Operating Officer up to May 11, 2022) | 08/08 |
| Mr S Prabagar<br>Director/Chief Operating Officer<br>(Appointed to office of the Director/ Chief Operating Officer w.e.f. May 12, 2022) | 05/05 |
| Mr S Renganathan<br>Managing Director/<br>Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 03/03 |
| Mr S K Hettihamu<br>Chief Risk Officer | |
| Ms A V P K T Amarasinghe<br>Assistant General Manager – Compliance/Compliance Officer | |
| Mr R Mihular<br>(Senior practicing Chartered Accountant, appointed as an Independent Consultant to the Committee to provide necessary assistance in discharging its functions)<br>Representatives of the Bank's External Auditors, Messrs Ernst & Young | |

### Secretary to the Committee

Mr J Premanath
Deputy General Manager – Management Audit

**Independent Non-Executive Director*

### Internal audit and inspection:

The Committee;

- Ensured that the internal audit function is independent of the activities it audited and that it was performed with impartiality, proficiency, and due professional care.
- Approved the Inspection/IS Audit Programme for the year 2022 formulated by the Inspection Department and the Information Systems Audit Unit (ISAU) The type and frequency of audits of Business Units are determined based on a risk assessment that provides a systematic approach to prioritise them. The progress and scope of Inspections/IS Audits were continuously reviewed to ensure that appropriate corrective actions have been taken to manage risks, particularly those identified during lockdowns, curtailed business operations during the Covid-19 pandemic and subsequently due to the impact of unprecedented economic crisis that prevailed in the Country. The scope of work was enhanced/realigned to include credit audits, remote work from home and surveillance of business operations through online and off-site audit procedures.

Bank's Inspection Department carried out onsite, offsite and online inspection of Business Units including four subsidiaries in Sri Lanka and operations in Bangladesh. Overseas subsidiaries namely Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Co. Ltd. were monitored through an on-site/off-site surveillance. With the concurrence of the Board, the Bank continued to engage the services of four firms of Chartered Accountants approved by the CBSL in order to supplement the Bank's Inspection Department in carrying out inspection assignments.

A total of 745 inspection reports on Business Units including the integrated reports of subsidiaries and overseas operations received the attention of the Committee which highlighted the operational deficiencies, risks and recommendations. The Committee evaluated the Bank's system of internal controls and duly reported its findings to the Board.

Major findings of internal investigations with recommendations of the Management were considered and appropriate instructions issued.

- Invited representatives from the audit firms assisting in inspections to make presentations to the Committee on their observations and findings.
- Reviewed findings and recommendations of the ISAU following the conduct of on-site/off-site audits covering local and overseas operations (Bank and Group), reviews of systems change management activities under the agile approach and verification of compliance with industry standards such as ISO 27001:2013/PCI-DSS/ Baseline Security Standards (BSS), SWIFT CSP to ensure safeguarding of IT assets of the Bank. The Committee ensured that ISAU makes optimal use of Computer Aided Audit Tools and Techniques (CAATTs) in conducting above assignments. Attention of the Committee was also drawn to contributions made by the ISAU on special assignments such as Bank wide major Hardware/Software upgrades, implementation of requirements in CBSL Regulatory Framework on Technological Risk Management and Resilience etc.
- Paid attention to significant findings and recommendations relating to key IT Projects, monitoring over critical systems/ applications, IT Governance, Cyber Security, Cloud Security, Remote Access Controls, Network Security, Physical and Logical Access Management, Endpoint Security, Privileged and Vendor Access Management, Robotic Process Automation, Vulnerability Assessment and Penetration Testing (VA/PT) Process made in the reports submitted by the ISAU.

  Also emphasised on adoption of Vulnerability Assessment and remediation process, Identity Access Management (IAM), Data Protection Law by the Bank and observed action being initiated for further strengthening of IT Security.
- Reviewed the reports on findings relating to Business Continuity Planning and disaster recovery arrangements during the year 2022.
- Reviewed the Internal Audit report on the independent assessment of the degree of compliance with the Banking Act Direction No. 11 of 2007 issued by the CBSL on Corporate Governance and the Code of Best Practice on Corporate Governance issued by CA Sri Lanka.
- Reviewed the adequacy and integrity of the Bank's Management Information System (MIS) through internal audit reports to ascertain whether information presented to the Board is "fit for purpose".
- Noted and discussed the contents stated in the Positive Assurance Statement of Risk Management measures tabled by the Chief Risk Officer (CRO).

The Committee members visited several branches of the Bank and provided their observations and recommendations to the Board and the Management.

### External audit:

The role of the Committee with regard to the external audit function of the Bank included:

- Assisting the Board in engaging External Auditors for audit services, in compliance with the provisions of the Direction and agreeing on their remuneration with the approval of the shareholders.
- Monitoring and evaluating the independence, objectivity, and effectiveness of the External Auditor.
- Reviewing non-audit services provided by the Auditors, with a view to ensuring that such functions do not fall within the restricted services and provision of such services will not impair the External Auditor's independence and objectivity.
- Discussing the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors, prior to commencement of the annual audit.
- Discussing all relevant matters arising from the interim and final audits, and any matters the Auditor may wish to discuss, including matters that may need to be discussed in the absence of Key Management Personnel.

- Reviewing the External Auditor's Management Letter and the periodic progress reports with the Management responses thereto.
- Messrs Ernst & Young will be completing five consecutive years of external audit with the audit for the financial year ended December 31, 2022. Although the Bank used to change the external auditor every five years, considering the fact that the CBSL is conducting an Asset Quality Review on the Banking Sector in the country and that Messrs KPMG has been selected to carry out this review on the Bank taking into account their independence, the Audit Committee recommended retaining Messrs Ernst & Young as the external auditor of the Bank for one more year, to the Board.

The Auditors were provided with the opportunity of meeting Non-Executive Director members of the Committee separately, without any Executive Directors being present, to ensure that the Auditors had the opportunity to discuss and express their opinions openly on any matter. It provided the assurance to the Committee that the Management has provided all information and explanations requested by the Auditors, that the Management has not imposed any restrictions on their scope of work and that there had not been any disagreements between the Auditor and the Management.

At the conclusion of the audit, the Committee also met the Auditors to review their Management Letter before it was submitted to the Board and the CBSL.

The members of the Committee evaluated the Bank's External Auditor, Messrs Ernst & Young covering key areas such as scope and delivery of audit, resources and quality assurance initiatives, during the year 2022.

## Mechanism of internal controls:

Sections 3 (8) (ii) (b) and (c) of the Banking Act Direction No. 11 of 2007 stipulate the requirements to be complied with by the Bank to ensure reliability of the financial reporting system in place at the Bank.

The Committee is assisted by the External Auditor and the Inspection Department to closely monitor the procedures designed to maintain an effective internal control mechanism to provide reasonable assurance that this requirement is being complied with.

In addition, the Committee regularly monitored all exceptional items charged to the Income Statement, long outstanding items in the Bank's chart of accounts, credit quality, risk management procedures and adherence to classification of non-performing loans and provisioning requirements specified by the CBSL. The Committee also reviewed the credit monitoring and follow-up procedures and the internal control procedures in place to ensure that necessary controls and mitigating measures are available in respect of newly identified risks.

The Committee reviewed and approved the Directors' Statement on Internal Controls over Financial Reporting for disclosure in the Annual Report.

## Conduct, ethics and good governance:

The Committee continuously emphasised on upholding ethical values of the staff members. In this regard, the Bank has a Code of Ethics, a Whistleblower's Charter and an Anti-Bribery and Anti-Corruption Policy in place which ensure and encourage all staff members to be ethical, transparent and accountable and resort to whistleblowing if they suspect any wrongdoings or other improprieties. Highest standards of corporate governance and adherence to the Bank's Code of Ethics were ensured.

All appropriate procedures were in place to conduct independent investigations into incidents reported through whistleblowing or identified through other means. The Whistleblower's Charter guarantees the maintenance of strict confidentiality of the identity of the whistleblowers.

## Evaluation of the Committee:

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board during the year. Considering the overall conduct of the Committee and its contribution to the overall performance of the Bank, the Committee has been rated as highly effective.

**R Senanayake**
Chairman – Board Audit Committee

February 24, 2023

# Report of the Board Integrated Risk Management Committee

The Committee recommended improvements to the Bank's Risk Management Framework and related policies and procedures were updated in consideration of anticipated changes in the economic and business environment.

**Ms J Lee**
Chairperson

## Composition of the Committee

The composition of the Board Integrated Risk Management Committee (the BIRMC) during the year under review is given on page 173. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

## Charter of the Committee

The BIRMC (the Committee) has been established by the Board of Directors, in compliance with the Section 3(6) of the Direction No. 11 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988. The composition and the scope of work of the Committee are in line with the same, as set out in the Charter which was reviewed during December 2022, clearly setting out; the membership, authority, duties and responsibilities of the Committee as described in the "Risk Governance and Management" Section of this Annual Report on pages 203 to 228.

The committee assists the Board of Directors in fulfilling its responsibilities for overseeing the Bank's risk management framework and activities including; the review of major risk exposures and the steps taken to monitor and control those exposures pertaining to the myriad of risks faced by the Bank in its business operations. Duties of the Committee include; determining the adequacy and effectiveness of such measures, and ensuring that the actual overall risk profile of the Bank conforms to the desirable risk profile of the Bank, as defined by the Board. Material risk types within specific risks that the Bank may face due to existing risks or forward looking emerging risks that require action to minimise their impacts in future are given special attention.

All key risks such as; Credit, Operational, Market, Liquidity, Information Technology, Strategic, etc. are assessed by the Committee regularly through a set of defined risk indicators. The Committee works very closely with the Key Management Personnel and the Board in fulfilling its statutory, fiduciary and regulatory responsibilities for risk management. The risk profile of the Bank is communicated to the Board of Directors periodically through the Risk Assessment report following each Committee meeting.

## Activities in 2022

In discharging the above duties and responsibilities vested, the Committee reviewed significant risks comprising of Credit, Operational, Market, Liquidity, Information Technology, Strategic, and other Emerging risk categories during the year. The activities carried out by the Committee are appended below;

- As was in the year 2021, the main focus for 2022 was on the deteriorated credit quality level of many industries stemming from a weakened operating climate. Affected sectors and risk factors were carefully evaluated, and those drivers within the control of the Bank were carefully monitored in view of keeping credit quality challenges at bay.
- In the latter part of the year, the focus heavily shifted towards analysing and reviewing the strategies adopted by the Management in addressing the increasing Foreign Currency (FCY) demand driven by FCY supply-side forces and the shift in risk appetite of foreign counterparties when lending to Sri Lankan institutions on account of the continued sovereign rating and relegations.
- The business strategy of the Bank was reviewed by the Committee given the economic changes taken place in the country as well as the global macro-economic conditions. Given the steep rise in interest rates and shortage of FCY liquidity in the interbank market, the Committee steered the Management to focus on business strategies to maintain asset quality and manage portfolio credit risks, to optimise profitability through expense management and identify growth segments.
- Reviewed and approved the ICAAP results related to Commercial Bank Group entities to ensure that the Group maintains an appropriate level and quality of capital in line with the risks inherent in its activities and projected business performance.
- Reviewed unusual and unprecedented changes experienced by the Bank arising out of socio-economic and geo-political factors that had given rise to extreme market movements, and their impact on the capital. The Bank's performance was reviewed closely by the Committee and the impact on performance and capital

was stress-tested. Mitigatory measures were deliberated accordingly to reduce the impact and the capital monitoring was reviewed by the Board on a monthly basis.

- Technology enablers were identified as important factor to further enhance our digital journey and the Bank embraced Data Analytics to facilitate predictive capabilities for our customer data and risk evaluation. In this regard, the Early Warning Signals (EWS) system was implemented, which encompasses predictive capabilities on future credit quality movement of a given portfolio.
- Approval of parameters and limits set by the Management against various categories of risk (upon ascertaining that they are in accordance with the relevant laws and regulations as well as the desired policy levels stipulated by the Board of Directors) were given attention in light of the multiple stressors driving economic uncertainty.
- The Group-wide Conduct Risk Management (CRM) framework was introduced to holistically identify, assess, measure, control, monitor and report probabilities of losses arising out of Conduct risk scenarios, in a manner aligned to the Group's operating model. In considering the limitations of quantifying varied qualitative variables associated with the CRM framework, weighted score-cards were introduced to incorporate quantitative measures into this process to arrive at a multi-tiered decision making platform.
- Periodic dashboards and reports from the Management were reviewed of the metrics used to measure, monitor and manage all risk types, including acceptable and appropriate levels of risk exposures. The reviews covered movements from inherent to residual risk levels which indicate the progress in implementing controls and assessing the effectiveness of mitigation measures in addressing the sources of risk.
- Improvements were recommended to the Bank's Risk Management Framework and related policies and procedures were updated in consideration of anticipated changes in the economic and business environment, including consideration for emerging risks, legislative or regulatory changes and other factors considered relevant to the Group's risk profile.
- The Key Risk Indicators (KRIs) designed to monitor the level of specific risks were reviewed regularly, with a view of determining the adequacy of such indicators to serve the intended risk management objectives. Moreover, proactive measures were taken to control risk exposures. The actual results computed monthly were reviewed against each risk indicator and prompt corrective actions were recommended to mitigate the effects of specific risks, in case such risks exceeded the prudent thresholds defined by the Board of Directors.
- Operational efficiency, disruptions to services that lead to customer inconvenience, extended outage of Bank's payment platforms, and additional monitoring and controls for the increased adoption and usage of digital solutions were deliberated. The Committee also discussed the implications of the "new normal" business environment facing the Bank in the aftermath of the Global Pandemic and other external stress drivers and directed the Management to incorporate these drivers and considerations into the operating processes of the Bank.
- Reviewed and revised the Terms of Reference of all Management Committees dealing with specific risks or some aspects of risk such as: the Executive Integrated Risk Management Committee, Executive Committee on Monitoring NPLs, Credit Policy Committee, Information Security Council, Asset and Liability Committee, etc. for enhanced effectiveness. Actions initiated by the Management were monitored periodically to verify the effectiveness of the measures taken by these respective Committees.
- The annual work plans, related strategies, policies and frameworks of the above Committees were reviewed to ensure that these Committees have a sound understanding of their mandates and mechanisms to identify, measure, avoid, mitigate, transfer or manage the risks within the qualitative and quantitative parameters set by the Committee.
- Reviewed, approved and oversaw the Bank's Recovery Plan (RCP) framework whilst ensuring that RCP is subject to comprehensive internal audit. The Committee directed the Management to identify the resources and departments required to monitor and report progress updates to further deepen a culture of accountability and communication of risks. Moreover, the Early Warning Indicators/ Trigger events defined in the RCP framework are to be periodically monitored in order to assess compliance with; regulatory guidelines and Board approved RCP policy parameters.

## Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Ms J Lee*<br>Chairperson of the BIRMC<br>(Appointed as Chairperson w.e.f. March 10, 2022) | 07/07 |
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer and to BIRMC w.e.f. May 12, 2022. Attended 01 meeting by invitation as the Chief Operating Officer up to May 11, 2022) | 07/07 |
| Mr K Dharmasiri*<br>Director<br>(retired w.e.f. January 08, 2023) | 07/07 |
| Mr L D Niyangoda*<br>Director | 07/07 |
| Mr R Senanayake*<br>Director | 07/07 |
| Ms D L T S Wijewardena*<br>Director | 07/03 |
| Dr S Selliah*<br>Director<br>(Appointed to BIRMC w.e.f. April 29, 2022) | 06/05 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 01/01 |

## Non Board Member

Mr S K K Hettihamu
Chief Risk Officer

## Regular attendees by invitation

| | |
|---|---|
| Mr S Prabagar<br>Director/Chief Operating Officer<br>(Appointed to office of the Director/Chief Operating Officer w.e.f. May 12, 2022) | 06/06 |
| Ms A V P K T Amarasinghe<br>Assistant General Manager – Compliance/Compliance Officer | |
| Mr K S A Gamage<br>Assistant General Manager – Information Technology: Operations | |

### Secretary to the Committee

Mr K D N Buddhipala
Chief Financial Officer

**Independent Non-Executive Director*

- Monitored the effectiveness and the independence of the risk management function within the Bank and ensured the adequacy of resources deployed for this purpose.
- Reviewed the effectiveness of the compliance function in order to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of business operation. Increasing regulatory expectations, challenging working conditions and heightened levels of misbehaviour of certain customer segments posed further challenges during the period under review in this front.
- Initiated appropriate action through the Management against failures of the Risk Owners in order to improve the overall effectiveness of the Risk Management of the Bank.
- The risk profiles of the Subsidiaries of the Bank were monitored through periodic review of KRIs and comprehensive annual risk reviews. Enhancements in processes and coordination were discussed to further align the risk management framework and functions to the overall Bank.
- With growing attention and regulatory importance stemming from CBSL Directions and Acts that were issued during 2022, it was decided to take over the oversight of the Sustainable Banking Initiatives performed by the Bank (through Executive Sustainable Banking Committee) whilst consistently directing the Data Governance Framework of the bank and periodically evaluate the adequacy of controls deployed with regard to confidentiality, integrity and availability of Data Assets.
- Reviewed the adequacy of the Business Continuity and Disaster Recovery plans of the Bank, in line with the statutory requirements.
- Findings from the bi-annual Risk Control Self-Assessment (RCSA) exercise were reviewed.

During the year under review, the Committee held seven meetings in total, four meetings on a quarterly basis and three additional meetings specifically to discuss the Internal Capital Adequacy Assessment process and Recovery Plan Document of the Bank.

Proceedings of the Committee meetings which also included activities under its Charter were regularly reported to the Board of Directors.

**Ms J Lee**
Chairperson – Board Integrated Risk Management Committee

February 24, 2023

# Report of the Board Nomination Committee

The Committee continued to work closely with the Board of Directors on matters assigned to it and duties and responsibilities delegated to it in terms of its Terms of Reference.

**Prof A K W Jayawardane**
Chairman

## Composition of the Committee

The composition of the Board Nomination Committee (the BNC) during the year under review is given in the third column of this page. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

## Terms of reference of the Committee

The BNC (the Committee) was established by the Board of Directors in compliance with the Clause 3 (6) (iv) of Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka" issued by the Monetary Board of the Central Bank of Sri Lanka (CBSL) under powers vested in the Monetary Board in terms of Section 46 (1) of the Banking Act No. 30 of 1988, as amended. The Committee was established to ensure Board's oversight and control over selection of Directors, Chief Executive Officer and Key Management Personnel. The Composition and the scope of work of the Committee are in line with the Terms of Reference.

## Charter of the Committee

The Committee shall;

- Review the structure, size and composition of the Board and make recommendations to the Board with regard to any change.
- Review the leadership needs of the organisation, both executive and non-executive with a view to ensuring long term sustainability of the organisation to compete effectively in the market place.
- Implement a procedure for the appointment and re-appointment of Directors to the Board taking into account factors such as fitness, propriety including qualifications, competencies, independence and relevant statutory provisions and regulations.
- Implement a procedure for the selection/appointment of Managing Director/Chief Executive Officer, Chief Operating Officer and other Key Management Personnel.
- Set the criteria such as qualifications, competencies, experience, independence, conflict of interest and other key attributes required for the eligibility to be considered for the appointment or promotion to the position of Managing Director/Chief Executive Officer, Chief Operating Officer and Key Management Personnel.
- Prior to any appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board and in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.
- Consider in respect of the Executive Directors and Key Management Personnel proposal for their appointment or promotion and any proposal for their dismissal or any substantial change in their duties or responsibilities or the terms of their appointment.

### Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Prof A K W Jayawardane*<br>Chairman<br>(Appointed as the Chairman of the BNC w.e.f. March 10, 2022) | 09/09 |
| Mr S Muhseen*<br>Director<br>(Appointed to BNC w.e.f. March 10, 2022) | 07/07 |
| Ms J Lee*<br>Director | 09/09 |
| Dr S Selliah*<br>Director<br>(Appointed to BNC w.e.f. June 29, 2022) | 01/01 |
| Justice K Sripavan*<br>Former Chairman<br>(Relinquished office w.e.f. March 01, 2022) | 02/02 |

### Regular attendees by invitation

| | |
|---|---|
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022 ) | 03/03 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 06/06 |

**Secretary to the Committee**

Mr R A P Rajapaksha
Company Secretary

**Independent Non-Executive Director*

- Prior to the appointment of a Director ensure that the proposed appointee would disclose any other business interests that may result in a conflict of interest and report any future business interests that could result in a conflict of interest.
- Consider and recommend from time to time, the requirements of additional/ new expertise for Directors and other Key Management Personnel.
- Propose the maximum number of listed Company Board representations which any Director may hold in accordance with relevant statutory provisions and regulations.
- Peruse duly completed Affidavits and Declarations of all Directors and Key Management Personnel and recommend same for approval of the Board.
- Formulate plans for succession for Key Management Personnel, Executive and Non-Executive Directors in the Board and in particular for the key roles of Chairman, Chief Executive Officer and Chief Operating Officer taking into account challenges and opportunities facing the Company and skills needed in the future.
- Make recommendations to the Board concerning, suitable candidates for the role of Senior Independent Director in instances where Chairman is not an Independent Director, membership of other Board Committees as appropriate in consultation with the Chairpersons of those Committees and the re-election of Directors at the Annual General Meeting by the Shareholders or the retirement by rotation according to the provisions of the Articles of Association of the Bank.
- Monitor the progress of any relevant Corporate Governance or Regulatory Developments, that may impact the Committee and recommend any actions or changes it considers necessary for Board approval and ensure compliance with existing Laws and regulations.
- Be authorised to express their independent views when making decisions.
- Be authorised by the Board to obtain, at the Bank's expense, outside legal or other professional advice on any matters within its Terms of Reference.
- Make recommendations to the Board concerning an indemnity and insurance cover to be taken in respect of all Directors and Key Management Personnel in accordance with the Articles of Association, relevant statutory provisions and regulations.
- Invite any member of the Corporate Management, any member of the Bank staff or any external advisers to attend meetings as and when appropriate and necessary.

## Activities in 2022

Nine Committee meetings were held during the year under review.

The Committee obtained declarations from all Directors through a prescribed format confirming their status of independence. Affidavits signed by each of the Directors through a prescribed format were obtained with the assistance of the Company Secretary to satisfy an annual requirement imposed under a Direction issued by the Central Bank of Sri Lanka (CBSL) and the originals of same were furnished to the Director of Bank Supervision of the CBSL to enable the CBSL to re-assess their fitness and propriety.

As provided for in the Articles of Association of the Bank, the Committee recommended retirement by rotation of two Directors, for approval of the Board.

Upon the retirement of Justice K Sripavan, former Chairman of the Bank during the year and after careful evaluation, the Committee recommended the appointment of the new Chairman and the new Deputy Chairman. Subsequently, the Committee identified suitable persons to fill a further vacancy created in the Board upon the retirement of a Director and after carefully evaluating several candidates, recommended the appointment of Dr S Selliah as a new Non-Executive/ Independent Director to the Board in April 2022.

The Committee having noted the vacancy arising upon the retirement of Mr S Renganathan, former Managing Director/Chief Executive Officer of the Bank recommended the appointment of Mr S C U Manatunge as the new Managing Director/Chief Executive Officer in May 2022.

The Committee identified suitable persons to fill the vacancies arising in the Board and upon careful evaluation of several candidates, recommended the appointment of Mr S Prabagar as new Executive Director/ Chief Operating Officer. The Succession Plan developed to ensure orderly succession of key management positions was recommended by the Committee for the approval of the Board.

Based on recommendations made by the Committee, the Board approved appointment of a Chief Information Officer. In addition, based on the recommendations of the Committee, the Board approved the appointment of Deputy General Manager – Corporate Banking, the promotions of the Chief Risk Officer and the Assistant General Manager – Management Audit to the grade of Deputy General Manager, the re-designation of the Deputy General Manager – Marketing as "Deputy General Manager – Retail Banking and Marketing", and the appointment of one Assistant General Manager – Corporate Banking to fill in the vacancy.

The Committee continued to work closely with the Board of Directors on matters assigned to it and duties and responsibilities delegated to it in terms of the BNC Terms of Reference and reported back to the Board of Directors with its recommendations.

**Prof A K W Jayawardane**
Chairman – Board Nomination Committee

February 24, 2023

# Report of the Board Human Resources and Remuneration Committee

At the conclusion of a review of performance of the members of the Corporate Management in 2021, the Committee carefully perused and agreed on their Key Performance Areas and the respective KPIs for 2022.

**Prof A K W Jayawardane**
Chairman

## Composition of the Committee

The composition of the Board Human Resources and Remuneration Committee (the BHRRC) during the year under review is given on page 178. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

## Charter of the Committee

The BHRRC (the Committee) is vested with power to evaluate, assess, decide and recommend to the Board of Directors on any matter that may affect the Human Resources Management of the Bank and shall specifically include:

- Determining the compensation of the Chairman, Deputy Chairman, Managing Director and other members of the Board of Directors of the Bank.
- Determining the compensation and benefits of the key management personnel and establishing performance parameters in setting their individual targets.
- Lay down guidelines, policies and parameters for the compensation structures for all executive staff of the Bank and oversee the implementation thereof.
- Review information related to executive pay from time to time to ensure same is in par with the market/industry rates as per the strategy of the Bank.
- Setting goals and targets for the Directors, Managing Director and Key Management Personnel.
- Evaluate the performance of the Managing Director and Key Management Personnel against the pre agreed targets and goals.
- Make recommendations to the Board of Directors from time to time of the additional/new expertise required at the Bank.
- Assess and recommend to the Board of Directors, succession management and issues connected to the Organisational Structure.
- Evaluate and assess and make recommendations and directions pertaining to the Board of Trustees and the management of the private provident fund of the Bank.
- Make recommendations/decisions/ directions pertaining to the statutory payments made by the Bank on behalf of its employees, ensuring the effective fulfillment of all commitments arising as a result of the employer-employee relationship.
- Recommend/decide/direct on disciplinary matters resulting in a significant financial loss to the Bank caused by Key Management Personnel of the Bank.
- Review of the effectiveness of Terms of Reference of Executive Human Resources Steering Committee.
- The Chairman of the Committee can convene a special meeting in the event a requirement arises provided all members are given sufficient notice of such special meeting. The quorum for a meeting is three members. Members of the Corporate Management may be invited to participate at the sittings of the Committee meetings as and when required by the Chairman, considering the topics for deliberation at such meeting. The proceedings of the Committee meetings are regularly reported to the Board of Directors.

## Guiding principles

The overall focus of the Committee:

- Setting guidelines and policies to formulate compensation packages, which are attractive, motivating and capable of retaining qualified and experienced employees in the Bank. In this regard, the Committee sets the criteria such as qualifications, experience and the skills and competencies required, to be considered for appointment or promotion to the post of Managing Director and to key management positions.
- Setting guidelines and policies to ensure that the Bank upholds and adheres to the provisions of the Laws of the Lands particularly those provisions of the Banking Act No. 30 of 1988, including the Directions issued by the Monetary Board/Director of Bank Supervision in accordance with the provisions of such Act.
- Providing guidance and policy direction for relevant matters connected to general areas of Human Resources Management of the Bank.
- Ensuring that the performance related element of remuneration is designed and tailored to align employee interests with those of the Bank and its main stakeholders and support sustainable growth.
- Structuring remuneration packages to ensure that a significant portion of the remuneration is linked to performance, to promote a pay for performance culture.

- Promoting a culture of regular performance reviews to enable staff to obtain feedback from their superiors in furtherance of achieving their objectives and development goals.
- Developing a robust pipeline of talent capable and available to fill key positions in the Bank.

## Methodology adopted by the Committee

The Committee recognises rewards as one of the key drivers influencing employee behaviour, thereby impacting business results. Therefore, the reward programmes are designed to attract, retain and motivate employees to perform by linking performance to demonstrable performance-based criteria. In this regard, the Committee evaluates the performance of the Managing Director and Key Management Personnel against the pre-agreed targets and goals that balance short-term and long-term financial and strategic objectives of the Bank.

The Bank's variable (bonus) pay plan is determined according to the overall achievements of the Bank and pre-agreed individual targets, which are based on various performance parameters. The level of variable pay is set to ensure that individual rewards reflect the performance of the Bank overall, the particular business unit and individual performance. The Committee makes appropriate adjustments to the bonus pool in the event of over or under achievement against predetermined targets. In this regard, the Committee can seek external independent professional advice on matters falling within its purview.

Further, the Committee may seek external agencies to carry out salary surveys to determine the salaries paid to staff vis-à-vis the market position, enabling the Committee to make informed decisions regarding the salaries and perquisites in the Bank.

## Activities in 2022

The Committee held four meetings during the year under review and the proceedings of the Committee meetings which also included activities under its Terms of Reference were regularly reported to the Board of Directors with its comments and observations.

The Committee determined the bonus payable for 2021 performance according to the Variable Pay Plan (VPP) for Executive staff and the grant of annual increments to the Executive staff who are not covered by the Collective Agreement. Performance of the members of the Corporate Management during the financial year 2021 including that of the Managing Director/Chief Executive Officer, and the Chief Operating Officer were reviewed. At the conclusion of the review process for 2021, the Key Performance Areas and the respective KPIs of the Corporate Management members set for 2022 were carefully perused by the Committee and agreed on, subject to changes.

Consequent to the retirement of the Managing Director, the Committee deliberated and recommended the salary and other perquisites applicable to the newly appointed Managing Director and Chief Operating Officer for the approval of the Board.

Requests by the Pensioners for a revision of pension was considered and the revisions were recommended for the approval of the Board. Revision of staff loans to all categories of permanent staff, due for revision during the year was granted. This revision is granted to staff once in three years. The Committee considered the recommendation made by the Management to grant a special economic relief allowance for permanent staff members up to the Junior Executive Officer Grade taking into account the current economic situation in the country, and recommended same for the approval of the Board.

The effect of Minimum Retirement Age of Workers Act No: 28 was considered by the Committee. The proposal by the Management, for inclusion of such employees who received an extension of service due to the implementation of Act, in the Defined Contribution Pension Fund for the remaining service period was recommended by the Committee for the approval of the Board.

The Committee discussed the effect of enhanced PAYE tax effective from January 2023 by the government and its effect on the employees and deferred action until the industry response in terms of relief can be more clearly ascertained.

**Prof A K W Jayawardane**
Chairman – Board Human Resources and Remuneration Committee

February 24, 2023

## Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Prof A K W Jayawardane*<br>Chairman<br>(Appointed as the Chairman of the BHRRC w.e.f. March 10, 2022) | 04/04 |
| Mr S Muhseen*<br>Director<br>(Appointed to BHRRC w.e.f. March 10, 2022) | 04/04 |
| Ms J Lee*<br>Director | 04/04 |
| Dr S Selliah*<br>Director<br>(Appointed to BHRRC w.e.f. June 29, 2022) | 02/02 |
| Justice K Sripavan*<br>Former Chairman<br>(Relinquished office w.e.f. March 01, 2022) | 00/00 |

## Regular attendees by invitation

| | |
|---|---|
| Mr S C U Manatunge<br>Managing Director/<br>Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022)<br>Participated in all deliberations except those matters impacting his own terms and conditions of employment | 03/03 |
| Mr S Renganathan<br>Former Managing Director/<br>Chief Executive Officer<br>(Retired w.e.f. May 11, 2022)<br>Participated in all deliberations except those matters impacting his own terms and conditions of employment. | 01/01 |

### Secretary to the Committee

Mr U I S Tillakawardana
Deputy General Manager – Human Resource Management

**Independent Non-Executive Director*

# Report of the Board Related Party Transactions Review Committee

Arrangements were made to disseminate the Related Party Transactions Policy among all relevant stakeholders and obtain their acknowledgments to ensure that they have read and understood the applicable regulatory requirements.

**Prof A K W Jayawardane**
Chairman

## Composition of the Committee

During the year under review, the Board Related Party Transactions Review Committee (the BRPTRC) comprised of Independent Non-Executive Directors (in conformity with Section D 4.2 of the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka).

The composition of the BRPTRC during the year under review is given in the third column of this page. Profiles of the members as at December 31, 2022, are indicated on pages 140 to 145.

## Charter of the Committee

Demonstrating its commitment to good governance, the Board of Directors of the Bank (being one of the few listed entities to do so) formed the BRPTRC (the Committee) in 2014 by early adoption of the Code of Best Practice on Related Party Transactions as issued by the Securities and Exchange Commission (SEC) of Sri Lanka which became mandatory for all listed entities from January 01, 2016.

The Committee assists the Board in reviewing all related party transactions (RPTs) carried out by the Bank, all its subsidiaries and the associate in the Group to ensure that the interests of shareholders as a whole are taken into account by the Bank when entering into RPTs and also to ensure that Directors, Key Management Personnel (KMP) and shareholders with substantial shareholding of the Bank do not secure any undue advantage due to their positions, thereby avoiding any conflicts of interest. The Committee also assists the Board in maintaining transparency in relation to RPTs with the required disclosures.

The mandate of the Committee includes inter-alia, the following:

- Developing, updating and recommending a RPTs Policy consistent with that proposed by the SEC, for adoption by the Board of Directors of the Bank and its listed subsidiaries.
- Updating the Board of Directors on the RPTs of each of the listed companies of the Group on a quarterly basis.
- Advising the Board in making immediate market disclosures on applicable RPTs as required by Section 9.3.1 of the Listing Rules of the CSE.
- Advising the Board in making appropriate disclosures on RPTs in the Annual Report as required by Section 9.3.2 of the Listing Rules of the CSE.
- Reviewing and recommending RPTs as per the RPTs Policy for the approval of the Board of Directors.

## Methodology adopted by the Committee

- Reviewing the mechanisms in place to obtain declarations from all Directors (at the time of joining the Board and annually thereafter) informing the Company Secretary, the primary contact point for Directors, of any existing or potential RPTs carried out by them or their Close Family Members (CFMs) and obtaining further declarations on a quarterly basis in the event of any change during the year to the positions previously disclosed.

### Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Prof A K W Jayawardane*<br>Chairman<br>(Appointed as a Member/Chairman of the BRPTRC w.e.f. March 10, 2022) | 03/03 |
| Mr L D Niyangoda*<br>Director | 04/04 |
| Mr R Senanayake*<br>Director | 04/04 |
| Justice K Sripavan*<br>Former Chairman<br>(Relinquished office w.e.f. March 01, 2022) | 01/01 |
| Mr T L B Hurulle*<br>Director<br>(Retired w.e.f. March 16, 2022) | 01/01 |

### Regular attendees by invitation

| | |
|---|---|
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022. Attended 01 meeting by invitation as the Chief Operating Officer up to May 11, 2022) | 04/04 |
| Mr S Prabagar<br>Director/Chief Operating Officer<br>(Appointed to office of the Director/Chief Operating Officer w.e.f. May 12, 2022) | 03/03 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 01/01 |

**Independent Non-Executive Director*

- Reviewing the mechanisms in place to obtain confirmations on any new appointments accepted by Directors of the Bank in other entities as KMP, informing the Company Secretary to identify and capture transactions carried out by the Bank with such entities which need to be disclosed under 'Directors' Interest in Contracts with the Bank' as disclosed on pages 201 and 202 of this Annual Report.
- Reviewing the mechanisms in place to capture and feed relevant information on RPTs which also includes information on KMP, CFMs and the Bank's subsidiaries and associate into the data collection system and the accuracy of such information.
- Obtaining an annual declaration from each Director, as required by the CBSL designed to elicit information about any existing or potential RPTs.
- Ensuring that annual declarations are submitted by Directors directly to the Bank's external auditors immediately after the closure of the Financial Year for external audit purposes.
- Obtaining independent validation from the Bank's Internal Audit division for information submitted to the Committee for its review.
- Following types of RPTs are brought to the attention of the Committee as required the Sections 3(7)(iv) and (v) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the CBSL.
- Any credit facility or any other form of accommodation for Directors or their CFMs as approved by the Board. In the case of facilities granted to the children of Directors, such transactions require approval of the Board only if the children are financially dependent in terms of the Definition given on "Close Relation" in Section 86 of the Banking Act No. 30 of 1988.
- Any credit facility or any other form of accommodation for entities in which a Director of the Bank holding more than 10% of its paid-up capital as approved by the Board.

## Activities in 2022

During the year, as a part of Bank's review of policies, the RPTs Policy was reviewed and updated in May and November 2022. The amended RPTs Policy was approved by the Board of Directors in June and in December 2022 and implemented. Arrangements were also made to disseminate the amended RPTs Policy among all relevant stakeholders and obtain their acknowledgements to ensure that they have read and understood the applicable regulatory requirements relating to identifying, capturing and reporting of RPTs. In addition, the Terms of Reference of the Committee was also reviewed and revised to capture new developments in November 2022 and was approved by the Board of Directors in December 2022. Further, the Committee deliberated and took several steps to improve the accuracy of the process involved in submitting the information on RPTs.

The Committee held four meetings during the year under review as required by Section 9.2.4 of the Listing Rules of the CSE. The Committee reviewed all RPTs carried out during the year at its quarterly meetings and the proceedings of the Committee meetings, which also included activities under its Terms of Reference, were regularly reported to the Board of Directors with its comments and observations.

**Prof A K W Jayawardane**
Chairman – Board Related Party Transactions Review Committee

February 24, 2023

# Report of the Board Credit Committee

In the challenging operating environment, the Committee set the lending directions of the Bank for prudent management of credit growth, while aiming at maintaining and improving credit quality.

**Prof A K W Jayawardane**
Chairman

## Composition of the Committee

The composition of the Board Credit Committee (the BCC) during the year under review is given in the third column of this page. Profiles of the members as at December 31, 2022 are given on pages 140 to 146.

## Charter of the Committee

The BCC (the Committee) shall assist the Board in effectively fulfilling its responsibilities relating to Credit Direction, Credit Policy and Lending Guidelines of the Bank in order to inculcate healthy lending culture, standards and practices and ensure relevant rules, regulations and directions issued by the appropriate authorities are complied with.

## The Committee is empowered to:

- Review and consider changes proposed by the Management from time to time to the Credit Policy and the Lending Guidelines of the Bank.
- Review the credit risk controls in lending, ensure alignment with the market context and the internal policy of the Bank and the prevailing regulatory framework in order to ensure continuous maintenance and enhancement of the overall quality of the Bank's loan book.
- Evaluate, assess and approve credit proposals which fall within the delegated authority level of the Committee as prescribed by the Board from time to time.
- Evaluate, assess and approve the provisioning of bad and doubtful debts, concession on interest and writing off of bad debts within the delegated authority level of the Committee as prescribed by the Board from time to time.
- Review and recommend credit proposals which fall within the purview of the Board.
- Evaluate and recommend sector exposures and cross boarder exposures to the Board as per the frequencies identified in the Risk Management Policy of the Bank.
- Monitor and evaluate special reports called for by the Board.
- Set lending directions based on the current economic climate and risk appetite of the Bank.

## Activities in 2022

The Committee held Twelve meetings during the year under review. The proceedings of the committee meetings were regularly reported to the Board of Directors. In a challenging environment due to the effects of the COVID-19 pandemic affecting the global and local business environment as well as the unprecedented macroeconomic challenges & uncertainties faced by the country, the Committee set the lending directions of the Bank for prudent management of credit growth, while aiming at maintaining and improving credit quality.

The Committee approved credit proposals above a predetermined limit, recommended credit proposals and other credit reports intended for approval/perusal by the Board of Directors after careful scrutiny. These tasks were carried out by the Committee in line with the Bank's lending policies and credit risk appetite to ensure that the lending portfolios were managed in line with the stipulated credit risk parameters set by the Board of Directors while achieving the Bank's lending targets.

**Prof A K W Jayawardane**
Chairman – Board Credit Committee

February 24, 2023

## Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Prof A K W Jayawardane*<br>Chairman<br>(Appointed to the BCC w.e.f. March 01, 2022 and appointed as the Chairman w.e.f. March 10, 2022) | 10/10 |
| Mr K Dharmasiri*<br>Director<br>(Retired w.e.f. January 08, 2023) | 12/12 |
| Ms N T M S Cooray*<br>Director | 12/12 |
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022. Attended 04 meetings as the Chief Operating Officer up to May 11, 2022) | 12/12 |
| Mr S Muhseen*<br>Director<br>(Appointed to BCC w.e.f. March 10, 2022) | 10/09 |
| Mr S Prabagar<br>Director/Chief Operating Officer<br>(Appointed to office of the Director/Chief Operating Officer and to BCC w.e.f. May 12, 2022) | 08/08 |
| Justice K Sripavan*<br>Former Chairman<br>(Relinquished office w.e.f. March 01, 2022) | 02/02 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 04/04 |

**Secretary to the Committee**
Mr R A P Rajapaksha
Company Secretary

**Independent Non-Executive Director*

# Report of the Board Investment Committee

The responsibilities of the Committee assumed great significance in 2022, as the sharp deterioration of the macro-economic framework of Sri Lanka necessitated a proactive and dynamic approach to mitigate multiple economic shocks.

**S Muhseen**
Chairman

## Composition of the Committee

The composition of the Board Investment Committee (the BIC) during the year under review is given on page 183. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

## Charter of the Committee

The BIC (the Committee) Investment Committee is responsible for the treasury and investment activities of the Bank. The Committee reviews and approves the policies and operating parameters for treasury and investment activities. It evaluates proposed treasury and investment strategies, reviews significant investment decisions, and oversees the performance of the treasury and investment portfolios. The Committee also initiates discussions and reviews the capital management of the Bank.

Given its oversight on treasury activities, the Committee evaluates the Bank's overall liquidity management operations, treasury investments and borrowing activities, and capital adequacy. The Bank's borrowing proposals are evaluated together with the liquidity requirement and deployment by the Committee, and suitable recommendations are provided.

To meet the core objectives of the Committee, the investment portfolio performance is closely monitored via regular updates from Treasury and Investment Banking Divisions. Suitable treasury and investment proposals are approved or recommended to the Board of Directors. The Committee also evaluates the impact of possible macroeconomic developments and trends to the profitability, liquidity, balance sheet, and capital through sensitivity and scenario analysis. The Committee also provides expert views and assistance to the Management with regards to the treasury and investment portfolio risks and performance.

## Methodology adopted by the Committee

The Committee meets monthly and reviews progress of strategic and significant investments, the liquidity situation of the bank, the currency exposures of the portfolio, and impact on performance and capital. Evaluation of current market developments and the economic outlook of the markets the bank operates in, to review the current portfolio and for new investment strategies. The Committee actively reviews the monthly performance of the Treasury and Investment Banking Division, where the interest rate risk, re-pricing risk, liquidity risk, currency risk and other market risks are discussed.

The Committee from time to time would issue instructions to executive officers of the Bank on investment related activities.

## Activities in 2022

The responsibilities of the Committee assumed great significance in 2022, as the sharp deterioration of the macro economic framework of Sri Lanka created an extremely adverse operating environment for the Bank. The sovereign default, sharp depreciation of LKR against USD, absence of money and foreign exchange markets for a prolonged period of time, deterioration of capital adequacy and liquid assets ratios, sharp increase in the interest rates all created a situation where the Committee needed to have very close and frequent engagement with the Bank management to meet rapidly evolving conditions. The Committee provided recommendations and guidance to the Management and the Board of Directors on the matters coming under its purview constantly in areas of liquidity management, investments, market risk mitigation while constantly anticipating and evaluating possible market shocks. In addition, the Committee kept abreast of the discussions with the Government of Sri Lanka (GOSL) and CBSL on market developments, discussions on debt restructuring, FX risk management and financing.

Following key areas where the Committee was required to recommend and make decisions can be highlighted.

1. Review and approval of the FX exposure management plan of the Bank to ensure continued fulfilment of FX commitments. This included reduction of exposure to GOSL in FCY investments, alignment of trade finance business of the Bank within the expected FCY inflows of the Bank, and timely repayment of all borrowing commitments.

2. Approval of Liquidity Management Strategies recommended by the Bank to meet specific requirements due to adverse economic conditions.
3. Approving acceptance of LKR settlement for maturing FCY bonds (Sri Lanka Development Bonds) to mitigate impairment costs and future default risk.
4. Reclassification of the Bank's investment portfolios impacted by sharp increase in market interest rates resulting in decline in market value. Further, the Committee also recommended the reclassification of part of the FCY bonds (international sovereign bonds) portfolio subsequent to default by the GOSL.
5. Recommendation of the Bank's Capital Augmentation Plan and Tier II debt issuance of the Bank to strengthen the capital base.
6. Continuous review of the Bank's Liquidity Contingency Plan and Stressed Liquidity Contingency plan to support the Asset & Liability Management.
7. Review the Bank's action plan on the International Sovereign Bonds (ISB) recovery mechanism, including consideration of the treatment for matured bonds and coupons where payments are pending, setting up of the negotiation process with the authorities, approval of the Bank's representation in the ISB Steering Committee set up by local banks consortium to present a common approach, guidance of the selection process for appointment of the International Legal and Financial Advisors to the Steering Committee.

**S Muhseen**
Chairman – Board Investment Committee

February 24, 2023

## Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Mr S Muhseen*<br>Chairman<br>(Appointed as Chairman of the BIC w.e.f. March 10, 2022) | 13/13 |
| Ms Judy Lee*<br>Director | 13/12 |
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022. Attended 04 meetings as the Chief Operating Officer up to May 11, 2022) | 13/12 |
| Mr K Dharmasiri*<br>Director<br>(Retired w.e.f. January 08, 2023) | 13/13 |
| Ms N T M S Cooray*<br>Director | 13/12 |
| Mr S Prabagar<br>Director/Chief Operating Officer<br>(Appointed to office of the Director/ Chief Operating Officer and to the BIC w.e.f. May 12, 2022) | 09/09 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 04/04 |

## Regular attendees by invitation

Mr K D N Buddhipala
Chief Financial Officer

Mr S K K Hettihamu
Chief Risk Officer

Mr S B Pananwala
Assistant General Manager – Corporate Banking

**Secretary to the Committee**

Mr A Wijesiriwardane
Deputy General Manager – Treasury

**Independent Non-Executive Director*

Dr S Selliah, Director was appointed a member of the Committee w.e.f. February 10, 2023.

# Report of the Board Technology Committee

The Committee focused on improving digital reach, enterprise alignment, process improvements and compliance which are the key drivers of the Bank towards a digital era while ensuring the robustness of the IT infrastructure of the Bank.

**S Muhseen**
Chairman

## Composition of the Committee

The composition of the Board Technology Committee (the BTC) during the year under review is given on page 185. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

## Charter of the Committee

The primary responsibility of the BTC (the Committee) is to assist the Board in performing its oversight function on all Digital and Technological strategies of the Bank and to evaluate all IT-related procurement proposals and submit its recommendations to the Board.

The Committee has been empowered to:

- Guide the Bank on building Technology and Digital Strategy, reviewing the Digital, Data Analytics, Technology, RPA(Robotic Process Automation) and Information Security Roadmaps
- Ensure that the key technology initiatives and emerging technologies support the Bank's business objectives
- Oversee risks related to the quality and effectiveness of the Bank's information security strategies
- Review ROI of key IT initiatives.

## Activities in 2022

The Committee held seven meetings during 2022, and the proceedings of the Committee meetings were regularly reported to the Board of Directors with its comments and observations. The Committee focused on improving the following areas, which are the key drivers of the Bank towards a digital era while ensuring the robustness of the IT infrastructure of the Bank.

Digital reach, Enterprise alignment, Process Improvements and Compliance have been identified as critical factors in taking the banking business to the next level by enhancing customer convenience on day-to-day banking services. To cater to this requirement, the Bank has implemented comprehensive multiple technical roadmaps. In the year 2022, the Bank was able to implement the following key initiatives to excel in the banking operation.

## Key IT initiatives

- Combank Digital as the Flagship Digital Channel
  - Enhancing customer experience by improving platform performance and introducing new features to Sri Lankan customer base to increase the usage of Banks main digital channel with ease. Furthermore, introduced new responsive web application and IOS, Android and Huawei mobile applications for Bangladesh operation enabling access across all devices with enhanced user experience with new features.
- Automation of Lower counter operations of branches
  - Automate and enhance key processes of lower counter operations. This initiative increases customer experience by minimising waiting time and streamlining the internal processes
  - Enhanced hardware capability of AS400 PROD and DR, HA TEST, DEV to cater ever increasing customer demands and loads
  - Front end teller application for branches (T4S) implementation for Sri Lanka branch network
  - New Virtual Environment for Teller System, replace obsolete virtual environment & future requirement
  - AI and Data Science (SME/Corp/Data Visualisation) phase 1 for SME operations which enables the teams with data driven decision making.

Furthermore, the Agile way of working at IT R&D has supported to cater to the business units with the targeted priorities and full transparency. The productivity and quality of deliveries have been greatly improved compared to the previous year.

**Digital Infrastructure** plays a vital role in providing an uninterrupted service and serves the ever-increasing customer expectations. Cognisant of the importance of the infrastructure, the Information Technology Department has identified and implemented the following key initiatives to enhance the internal system capabilities and streamline the hardware usage;

- **900+ Touchpoints (ATM/CRM)** – The Bank has further expanded ATM/CRM facility while reaching 900+ touchpoints landmark at the end of the year 2022 while being the Sri Lanka's largest single ATM/CRM network owned by a private sector bank with 24 x 7 customer convenience and enhanced features.
- **High availability Framework** – The availability of IT systems for customers is of paramount importance in today's competitive banking industry, especially in digital platforms. When maintaining availability, "High Availability" is important for IT systems to continue the business even with unpredictable failures of IT systems. The Bank has enhanced the "High Availability" of its mission-critical systems.
- **Server Virtualisation and Private Cloud** – Centralised Virtual Server Infrastructure at Datacenters facilitates the Bank's systems and applications and covers 93% of the servers and provides many technical advantages while saving OPEX. The strategic decision has been taken to further enhance the server virtualisation platform while enabling a private cloud-ready platform.

Enterprise Architecture focus has been set to align all the banking systems and infrastructure to the industry standards. The Business, Data, Application, and Infrastructure architectures have been considered as the key focus verticals incorporating IT standards with security compliance.

- Compliance and Certifications of ISO 20000/PCI-DSS/ISO 27001 – The Bank was recertified for ISO 20000, PCI-DSS, and ISO 27001 standards in 2022. These are the *de facto* standards on, IT Service Management, Information Security and Card Industry, and it will demonstrate that IT systems and processes are maintained with these world-renowned certifications. All these compliances build customer confidence and information security practices.

## Projects In progress

The Bank has initiated several key IT projects during the year, including Core Banking upgrade, New Treasury System Implementation, Loan Origination system version upgrade, Open banking for Maldives, Enhancing Digital Banking platform, Implementing Flash for all countries with brand-new Microservices architecture, Early Warning Signals for lending portfolio, AI and Data Science use cases, Robotic process automation for internal operations, Recoveries system implementation, Fraud monitoring system implementation, Employee self-service mobile app, ATM Channel manager, ITM Version upgrade, Q + Feature addition and Compliance related projects (GoAML, ITRS, RTGS).

**S Muhseen**
Chairman – Board Technology Committee

February 24, 2023

## Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Mr S Muhseen*<br>Chairman<br>(Appointed as the Chairman of the BTC w.e.f. March 10, 2022) | 07/07 |
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer w.e.f. May 12, 2022. Attended 03 meetings as the Chief Operating Officer up to May 11, 2022) | 07/07 |
| Mr K Dharmasiri*<br>Director<br>(Retired w.e.f. January 08, 2023) | 07/07 |
| Ms D L T S Wijewardena*<br>Director | 07/05 |
| Mr S Prabagar<br>Director/Chief Operating Officer<br>(Appointed to office of the Director/ Chief Operating Officer and to the BTC w.e.f. May 12, 2022) | 04/03 |
| Prof A K W Jayawardane*<br>Former Chairman of the BTC<br>(Resigned from the BTC w.e.f. March 09, 2022) | 01/01 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 03/02 |
| Mr T L B Hurulle*<br>Director<br>(Retired w.e.f. March 16, 2022) | 02/01 |

## Regular attendees by invitation

Mr L H Munasinghe
Deputy General Manager – Retail Banking & Marketing

Mr P K A S K Gunawardhana
Chief Information Officer

Mr K S A Gamage
Assistant General Manager – Information Technology – Operations

Mr T P Suraweera
Assistant General Manager – Operations

Mr U K P Banduwansa
Head of Retail Products & Digital Channels

Mr K Mediwake
Chief Executive Officer – CBC Tech Solutions Limited

### Secretary to the Committee

Mr M V P Thotagammana
Assistant General Manager – Information Technology – (R&D)

**Independent Non-Executive Director*

# Report of the Board Strategy Development Committee

The Committee deliberated on the potential stress on the capital adequacy arising due to many external factors and measures that need to be taken to augment capital adequacy.

**Prof A K W Jayawardane**
Chairman

## Composition of the Committee

The composition of the Board Strategy Development Committee (the BSDC) during the year under review is given on page 187. Profiles of the members as at December 31, 2022 are given on pages 140 to 145.

## Charter of the Committee

The Committee was established to have an overall Bank-wide strategic management oversight.

The Committee is empowered:

- To assist the Board in performing its oversight responsibilities relating to the Bank's strategy.
- To advise the Management and monitor progress on:
  - Defining of business strategies geared for the sustainable development of the Bank; and
  - Establishment of processes for planning, implementing, assessing, and adjusting of the business strategy.
- To oversee the Management's engagement on the strategic perspective, direction, and development of the strategy for the Bank and its business units.
- To oversee the Management's implementation of the approved strategic plan and the progress against strategic milestones and goals.
- To oversee the Management's implementation of major business transformation projects and their execution.
- To engage in detailed discussion and provide guidance to the Management on:
  - Governance, risk appetite, financial and capital planning, liquidity and fund management, control environment and resources required to support the Bank's strategic objectives.
  - Divestitures, mergers and acquisition strategies including post transaction performance tracking.
  - The impact of changes in the competitive environment.

## Activities in 2022

The BSDC met more frequently during the year (six meetings) compared to the minimum requirement of four meetings as per the Terms of Reference to offer guidance in the strategic decision-making process of the Bank in a challenging socio economic environment which prevailed during 2022.

The BSDC assisted the Board by evaluating the business strategies and recommending to strengthen core competencies of the Bank.

The Committee carried out the following activities during the year 2022:

- Deliberated on the potential stress on the capital adequacy arising due to many external factors and measures that need to be taken to augment capital adequacy.
- Emphasised on the importance of augmenting customer experience and deliberated on the training requirements for the staff and tools available in this regard.
- Emphasised on the importance of maintaining the uptime of the IT systems and the reputational risk of failing to maintain it at an acceptable level. Discussed about the root causes of the incidents involving IT systems downtime and sought assurance from the Management on the corrective measures taken/to be taken.
- Deliberated on the actions to be taken to increase the contribution of the subsidiaries to the Group performance and got the Chief Executive Officers of selected Subsidiaries to present their plans to the Committee in this regard.
- Considered the government budget proposals and their impact on the Bank and the Banking Industry.
- Received frequent updates on major challenges in 2022 such as foreign exchange crisis, high interest rates, soaring inflation and stress on capital adequacy to support its decision making.
- Emphasised the importance of establishing/developing the Investor Relations function and a presentation was made to update the Committee on the present status of the function.

- Received frequent updates on the progress on the initiatives taken in relation to the Government debt restructuring programme.
- Reviewed the short, medium and long term strategies of the Managing Director designate.
- Reviewed the impact of movements in market variables on capital adequacy.
- Reviewed and discussed matters of importance arising from the Minutes of the Executive Strategy Development Committee Meetings.
- Considered the market share analysis and the market share dashboard and discussed matters relating to same.
- Considering the prevailing situation, recommended to the Management to maintain adequate liquidity levels.
- Emphasised on the importance of standardising service levels across all the customer touch points in the delivery network.
- Reviewed the progress of the Digital Road Map of the Bank.
- Given the challenging operating environment and the consequent stresses on the Bank, the Committee recommended appropriate revisions to its expanding opportunities.
- Discussed matters relating to the 2023 Budget of the Bank.

Important decisions taken at the Committee meetings and deliberations on activities under the Terms of Reference were regularly reported to the Board of Directors for information/approval.

**Prof A K W Jayawardane**
Chairman – Board Strategy Development Committee

February 24, 2023

### Board members and attendance

| | Eligible to attend/ Attended |
|---|---|
| Prof A K W Jayawardane*<br>Chairman<br>(Appointed as the Chairman of the BSDC w.e.f. March 10, 2022) | 06/06 |
| Mr S Muhseen*<br>Director | 06/06 |
| Mr S C U Manatunge<br>Managing Director/ Chief Executive Officer<br>(Appointed to office of the Managing Director/Chief Executive Officer and to the BSDC w.e.f. May 12, 2022) | 05/05 |
| Mr K Dharmasiri*<br>Director<br>(Retired w.e.f. January 08, 2023) | 06/06 |
| Mr L D Niyangoda*<br>Director | 06/06 |
| Ms N T M S Cooray*<br>Director | 06/04 |
| Ms J Lee*<br>Director | 06/06 |
| Mr R Senanayake*<br>Director | 06/06 |
| Dr S Selliah*<br>Director<br>(Appointed to BSDC w.e.f. April 29, 2022) | 04/04 |
| Justice K Sripavan*<br>Former Chairman<br>(Relinquished office w.e.f. March 01, 2022) | 01/01 |
| Mr S Renganathan<br>Former Managing Director/ Chief Executive Officer<br>(Retired w.e.f. May 11, 2022) | 03/02 |

**Secretary to the Committee**

Mr R A P Rajapaksha
Company Secretary

**Independent Non-Executive Director*

# Statement of Compliance

Further to the Annual Report of the Board of Directors on the Affairs of the Company appearing on page 3, given below is a summary of the extent of compliance with the requirements of Section 168 of the Companies Act No. 07 of 2007 and amendments thereto and other relevant statutes.

Table – 48: **Statement of Compliance**

| | Disclosure requirement | Reference to the relevant statute/rule | Page reference for compliance and other necessary disclosures | Page/s |
|---|---|---|---|---|
| **Mandatory disclosures as required by the Companies Act No. 07 of 2007 and amendments thereto (CA)** | | | | |
| 1. | The nature of the business of the Group and the Bank together with any changes thereof during the accounting period | Section 168 (1) (a) | Notes to the Financial Statements: Item 1.3: Principal Business Activities, Nature of Operations of the Group and Ownership by the Bank in its Subsidiaries and Associate | 249 and 250 |
| 2. | Signed Financial Statements of the Group and the Bank for the accounting period completed in accordance with Section 152 | Section 168 (1) (b) | Financial Statements of the Group and the Bank for the year ended December 31, 2022 | 237 to 386 |
| 3. | Auditors' Report on the Financial Statements of the Group and the Bank | Section 168 (1) (c) | Independent Auditors' Report | 232 to 234 |
| 4. | Accounting Policies of the Group and the Bank and any changes therein | Section 168 (1) (d) | Notes 6 to 11 to the Financial Statements: Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Bank | 259 to 271 |
| 5. | Particulars of the entries made in the Interests Registers of the Bank and its Subsidiaries during the accounting period | Section 168 (1) (e) | The Bank and all its Subsidiaries maintain Interests Registers.<br>All Directors have made declarations as required by the Section 192 (1) and (2) and all related entries were made in the Interests Registers during the year under review.<br>The Interests Registers are available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d).<br>Refer "Directors' Interest in Contracts with the Bank" disclosed in the Annual Report. | 201 and 202 |
| 6. | Remuneration and other benefits paid to Directors of the Bank and its Subsidiaries during the accounting period | Section 168 (1) (f) | Note 21 to the Financial Statements: Other operating expenses | 281 |
| | | | Report of the Board Human Resources and Remuneration Committee | 177 and 178 |
| 7. | Total amount of donations made by the Bank and its Subsidiaries during the accounting period | Section 168 (1) (g) | Note 21 to the Financial Statements: Other operating expenses | 281 |
| 8. | Information on Directorate of the Bank and its Subsidiaries during and at the end of the accounting period | Section 168 (1) (h) | Governance and Risk Management | 138 and 228 |
| | | | Refer "Board of Directors and Profiles" for details of members of the Board of Directors of the Bank | 138 to 145 |
| | | | Refer "Group Structure" for details of members of the Board of Directors of the Group | 122 and 123 |
| | | | **Recommendations for re-election**<br>(i) In terms of Article 85 of the Articles of Association, two Directors are required to retire by rotation at each Annual General Meeting (AGM). Article 86 provides that the Directors to retire by rotation at an AGM shall be those who (being subject to retirement by rotation) have been longest in office, since their last re-election or appointment. | |
| | | | (ii) The Board recommended the re-election/election of the following Directors, after considering the contents of the Affidavits & Declarations submitted by them and all other related issues:<br>(a) Re-election of Directors who retire by rotation<br>• Ms N T M S Cooray<br>• Ms J Lee<br>(b) Election of Directors who were appointed to fill casual vacancies<br>• Dr S Selliah<br>• Mr S Prabagar<br>• Mr D N L Fernando | |

| | Disclosure requirement | Reference to the relevant statute/rule | Page reference for compliance and other necessary disclosures | Page/s |
|---|---|---|---|---|
| | | | (iii) Directors who served on the Board for nine years – None as at end of 2022.<br>[In terms of the Banking Act Direction No. 11 of 2007 on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", the total period of service of a Director (other than a Director who holds the Position of Chief Executive Officer) is limited to nine years. Further, under the criteria to assess the fitness and proprietary of Directors, the age of a person who serves as director of a bank has been restricted to a maximum of 70 years]. | |
| 9. | Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Bank and its Subsidiaries | Section 168 (1) (i) | Note 21 to the Financial Statements: Other operating expenses | 281 |
| 10. | Auditors' relationship or any interest with the Bank and its Subsidiaries (Lead auditor's independence) | Section 168 (1) (j) | Independence Confirmation has been provided by Messrs. Ernst & Young as required by Section 163 (3), in connection with the audit for the year ended December 31, 2022, confirming that Ernst & Young is not aware of any relationship with or interest in the Bank or any of its subsidiaries that in their judgement, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by CA Sri Lanka, applicable as at the reporting date.<br>No prohibited non audit services have been provided by Messrs. Ernst & Young as per the Direction issued by the CBSL on 'Guidelines for External Auditors relating to their Statutory Duties'. The Directors are satisfied as the BAC has assessed each service, having regard to auditor's independence requirements of applicable laws, rules and regulations, and concluded in respect of each non-audit service or type of non-audit service that the provision of that service or type of service would not impair the independence of Messrs. Ernst & Young. | |
| 11. | Acknowledgement of the Contents of this Report/Signatures on behalf of the Board of Directors | Section 168 (1) (k) | The Board of Directors have acknowledged the contents of this Annual Report as disclosed. | 3 |
| **Other Disclosures as required by Recommended Best Practices (RBP), Listing Rules (LR) of the Colombo Stock Exchange, Companies Act No. 07 of 2007 and amendments thereto (CA) and the Banking Act Direction No. 11 of 2007 (CBSL)** | | | | |
| 12. | Vision, Mission and Corporate Conduct | RBP | The business activities of the Group and the Bank are conducted maintaining the highest level of ethical standards in achieving our "Vision and Mission", which reflect our commitment to high standards of business conduct and ethics.<br>The Bank issues a copy of its Code of Ethics to each and every staff member and all employees are required to abide by the provisions contained therein. | Inner Front Covers |
| 13. | Review of Business operations of the Group and the Bank and future developments | RBP | "Message from the Chairman" and "Managing Director's/Chief Executive Officer's Review" | 26 to 35 |
| | | | Management Discussion and Analysis | 58 to 137 |
| | | | Note 61 to the Financial Statements: Operating Segments | 350 and 351 |
| 14. | Gross Income | RBP | Notes 12 & 61 to the Financial Statements: Gross Income & Operating Segments | 272, 350 and 351 |
| 15. | Dividends on Ordinary Shares | RBP | Notes 25 & 68 to the Financial Statements: Dividends on ordinary shares & Events after the reporting period | 284, 285 and 386 |
| | | | Refer – "Investor Relations" – Item 3 | 130 and 131 |
| 16. | Reserves and appropriations | RBP | Statement of Changes in Equity | 240 to 247 |
| | | | Notes 53, 54 & 55 to the Financial Statements: Statutory reserves, Retained earnings & other reserves | 340 to 343 |

| | Disclosure requirement | Reference to the relevant statute/rule | Page reference for compliance and other necessary disclosures | Page/s |
|---|---|---|---|---|
| 17. | Corporate Social Responsibility (CSR) | RBP | Community sustainability – outreach | 90 to 99 |
| 18. | Extents, locations, valuations and the number of buildings of the Bank's land holdings and investment properties | LR 7.6 (VIII) | Note 38 to the Financial Statements: Property, Plant and Equipment & Right-of-use assets | 307 to 319 |
| | | | Note 39 to the Financial Statements: Investment Properties | 319 and 320 |
| | | | Note 57.2 to the Financial Statements: Capital Commitments | 345 |
| 19. | Significant changes in the Bank's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value | LR 7.6 (XII) | Note 38.5 (b) to the Financial Statements: Information on freehold land and buildings of the Bank – Valuations | 313 to 317 |
| | | | Note 39.1(b) to the Financial Statements: Information on investment properties of the Group – Valuations | 320 |
| 20. | Issue of Shares and Debentures | | | |
| 20.1 | Issue of Shares by the Bank | LR 7.6 (XIII) | Notes 51 & 51.1 to the Financial Statements: Stated Capital and Movements in number of shares | 338 |
| 20.2 | Issue of Debentures by the Bank | LR 7.6 (XIII) | Note 50 to the Financial Statements: Subordinated Liabilities | 336 and 337 |
| 20.3 | Issue of Shares and Debentures by the Subsidiaries and the Associate | CA S.168 (1) (e) | During the year, the subsidiaries and associate of the Bank did not make any share or debenture issues. | |
| 21. | Share information and Substantial Shareholdings | | | |
| 21.1 | Distribution Schedule of Shareholdings, names and the number of shares held by the 20 largest holders of Voting & Non-Voting shares and the percentage of such shares held, Float adjusted Market Capitalisation, public holding percentage, number of public shareholders, and the option under which the Bank complies with the minimum public holding requirement. | LR 7.6 (III)<br>LR 7.6 (IV)<br>LR 7.6 (X)<br>LR 7.13.1 | Refer – "Investor Relations" – Items 4.2, 4.3 and 4.5 | 131 to 133 |
| 21.2 | Financial ratios and market price information | LR 7.6 (XI) | Financial Highlights | 14 |
| | Information on Earnings, Dividends, Net Assets and Market Value per share | | Decade at a Glance | 118 to 121 |
| | Information on listed debt securities | | Refer – "Investor Relations" – Item 10 | 136 |
| | | | Annex 2 – Basel III – Disclosures under Pillar III as per Banking Act No. 01 of 2016 – Disclosure 6 – Main features of regulatory capital instruments | 414 and 415 |
| 21.3 | Information on shares traded and the number of shares represented by the Stated Capital | LR 7.6 (IX) | Refer – "Investor Relations" – Item 2 and 7 | 128 to 130 and 134 and 135 |
| 21.4 | Own Share Purchases | CA S.64 | The Bank does not purchase its own shares | |
| 21.5 | Equitable Treatment to Shareholders | RBP | Statement of Directors' Responsibility for Financial Reporting – Item (k) | 195 and 196 |
| 22. | Information on Directors' Meetings and Board Committees | | | |
| 22.1 | Directors' Meetings | RBP | Details of the meetings of the Board of Directors | 160 |
| 22.2 | Board Committees | RBP | Board Committee Reports | 168 to 187 |

<table>
<tr><th></th><th>Disclosure requirement</th><th>Reference to the relevant statute/rule</th><th>Page reference for compliance and other necessary disclosures</th><th>Page/s</th></tr>
<tr><td>23.</td><td>Disclosure of Directors' dealings in shares and debentures</td><td></td><td></td><td></td></tr>
<tr><td>23.1</td><td>Directors' Interests in Ordinary Voting and Non-voting Shares of the Bank</td><td>LR 7.6 (V)</td><td>Refer – "Investor Relations" - Item 4.4<br><br>Directors' shareholdings in Ordinary Voting Shares and Ordinary Non-Voting Shares have not changed subsequent to the date of the Statement of Financial Position up to February 08, 2023, the date being one month prior to the date of Notice of the AGM.</td><td>132</td></tr>
<tr><td>23.2</td><td>Directors' Interests in Debentures</td><td>LR 7.6 (V)</td><td>Mr Raja Senanayake and Dr S Selliah, Directors held 22,800 and 54,400 debentures of the Bank as at December 31, 2022. Except for the above, there were no debentures registered in the name of any other Director as at the beginning and at the end of the year.</td><td></td></tr>
<tr><td rowspan="4">24.</td><td rowspan="4">Employee Share Option Plans and Profit-sharing Plans</td><td rowspan="4">LR 7.6 (XIV)</td><td>Note 52 to the Financial Statements: Share-based Payment</td><td>338 to 340</td></tr>
<tr><td>The Group and the Bank have not, directly or indirectly, provided funds for the ESOPs.</td><td></td></tr>
<tr><td>The Group and the Bank do not have any employee profit sharing plans, except the variable bonus scheme.</td><td></td></tr>
<tr><td>Tabulated below are the details of options available/exercised by the Executive Directors under the ESOPs.
<table>
<tr><th>Description</th><th colspan="2">2022</th><th colspan="2">2021</th></tr>
<tr><th></th><th>Mr S C U Manatunge</th><th>Mr S Prabagar</th><th>Mr S C U Manatunge</th><th>Mr S Prabagar</th></tr>
<tr><td>As at January 01,</td><td>152,914</td><td>97,750</td><td>125,829</td><td>90,295</td></tr>
<tr><td>Vested during the year</td><td>–</td><td>–</td><td>80,070</td><td>51,185</td></tr>
<tr><td>Exercised during the year</td><td>–</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Expired during the year</td><td>–</td><td>–</td><td>(52,985)</td><td>(43,730)</td></tr>
<tr><td>As at December 31,</td><td>152,914</td><td>97,750</td><td>152,914</td><td>97,750</td></tr>
</table></td><td></td></tr>
<tr><td rowspan="6">25.</td><td rowspan="6">Directors' Interests in Contracts or Proposed Contracts and Remuneration and other benefits of Directors during the year under review</td><td rowspan="3">CA S.192</td><td>Directors' interests in contracts with the Bank</td><td>201 and 202</td></tr>
<tr><td>Note 21 to the Financial Statements: Other Operating Expenses</td><td>281</td></tr>
<tr><td>Note 62 to the Financial Statements: Related Party Disclosures</td><td>352 to 356</td></tr>
<tr><td>RBP</td><td>As a practice, Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.</td><td></td></tr>
<tr><td>CA S.168 (1) (e)<br>LR 7.6 (XIV)</td><td>There are no arrangements that enable the Non-Executive Directors of the Group and the Bank to acquire shares or debentures of the Bank or its Subsidiaries, other than via the market.</td><td></td></tr>
<tr><td>CA S.217 (2) (d)</td><td>There are no restrictions on the approval of loans to Directors in the Bank's ordinary course of business, subject to compliance with all applicable regulations.</td><td></td></tr>
<tr><td>26.</td><td>Director's and Officers' Insurance</td><td>CA S.218</td><td>The Bank has, during the financial year, paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the directors, secretaries, officers and certain employees of the Bank and related body corporates as defined in the insurance policy. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.</td><td></td></tr>
</table>

| | Disclosure requirement | Reference to the relevant statute/rule | Page reference for compliance and other necessary disclosures | Page/s |
|---|---|---|---|---|
| 27. | Environmental Protection | RBP | The Group and the Bank have not, to the best of their knowledge, engaged in any activity, which was detrimental to the environment. | |
| | | | Specific measures taken to protect the environment are disclosed in the section on "Community sustainability – outreach" | 90 to 99 |
| 28. | Declaration on Statutory Payments | RBP | Statement of Directors' Responsibility for Financial Reporting – item (h) | 195 |
| 29. | Events after the reporting period | RBP | Note 68 to the Financial Statements: Events after the reporting period | 386 |
| 30. | Going Concern | RBP | Statement of Directors' Responsibility for Financial Reporting – item (m) | 196 |
| 31. | Directors' Responsibility for Financial Reporting | CBSL Direction 3(8)(ii)(a) | Statement of Directors' Responsibility for Financial Reporting – Compliance Report | 195 and 196 |
| 32. | Appointment of auditors and their remuneration | CBSL Direction 3(1)(i)(m) | The Bank has a policy of rotating Auditors once in every five years in keeping with the principles of good Corporate Governance, although the mandatory requirement is only partner rotation once in every five years. Messrs Ernst & Young, the present external Auditors of the Bank completed five consecutive years of external audit with the audit for the Financial Year ended December 31, 2022.<br>However, taking the following factors into consideration and subject to obtaining the approval of the shareholders at the forthcoming Annual General Meeting to be held on March 30, 2023, the Board of Directors recommends that Messrs Ernst & Young be retained as the Auditor for one more year, i.e. for the Financial Year ending December 31, 2023.<br>• The Central Bank of Sri Lanka is conducting an Asset Quality Review on the Banking Sector in the country at the request of the IMF. Messrs KPMG has been selected to carry out this review on the Bank considering their independence since they are not the statutory Auditor of the Bank. However, the said review is likely to continue beyond March 30, 2023, the date of the forthcoming AGM of the Bank at which the appointment/ re-appointment of the external auditor for the Financial Year 2023 will take place. Based on the policy of rotating auditors, if Messrs KPMG is appointed as the external Auditor at a time when the said review is in progress, that will have a bearing on their independence.<br>• As the external Auditor for the past five years, Messrs Ernst & Young is very familiar with the Bank's approach to complex assessments and assumptions used when classifying loans & advances and investments into different stages, computing individual and collective impairment provisions, determination of various management overlays as a part of impairment provisions, etc. and such understanding will be helpful when conducting the audit and profit certifications in the Financial Year 2023, given that the present volatile and uncertain operating environment is likely to continue in to 2023 as well. | |
| | | | The retiring Auditors, Messrs Ernst & Young have signified their willingness to continue to function as the Auditor to the Bank. | |
| | | CA S.168 (1) (I) | A resolution to appoint Messrs Ernst & Young as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming AGM to be held on March 30, 2023, for shareholder approval. | |
| | | | Expenses incurred in respect of Audit fees and fees for other services rendered by Messrs Ernst & Young during the year are given in Note 21 to the Financial Statements: Other Operating Expenses | 281 |
| 33. | Material issues pertaining to employees and industrial relations | LR 7.6 (VII) | Refer – "Investor Relations" – Item 6 | 133 |

| | Disclosure requirement | Reference to the relevant statute/rule | Page reference for compliance and other necessary disclosures | Page/s |
|---|---|---|---|---|
| 34. | Risk management and system of internal controls | LR 7.6 (VI) | Risk Governance and Management | 203 to 228 |
| | | | Report of the Board Integrated Risk Management Committee | 172 to 174 |
| | | | Note 66 to the Financial Statements: Financial Risk Review | 358 to 386 |
| | | | Directors' Statement on Internal Control over Financial Reporting | 197 and 198 |
| | | | The Independent Auditors' Report | 232 to 234 |
| | | | Independent Assurance Report on the Directors' Statement on Internal Control over Financial Reporting | 199 |
| 35. | Corporate Governance | RBP | The Directors declare that –<br>(a) the Bank has complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations. Officers responsible for ensuring compliance with the provisions in various laws and regulations, confirm compliance in each quarter to the Board Integrated Risk Management Committee;<br>(b) they have declared all material interests in contracts involving the Bank and refrained from voting on matters in which they were materially interested;<br>(c) they have complied with the Code of Best Practices on Corporate Governance;<br>(d) they have conducted a review of internal controls covering financial, operational & compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence;<br>(e) the Bank has complied with the Code of Best Practices on related party transactions and has made the required disclosures in the Financial Statements and to the market when applicable;<br>(f) the business is a Going Concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Bank's Corporate/Business plans and is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Bank, its Subsidiaries and Associate are prepared based on the Going Concern assumption. | |
| 36. | Focus on new regulations | RBP | **Accounting Standards**<br>Although both Phase 1 and Phase 2 amendments to IBOR reforms became effective for annual reporting periods beginning on or after January 01, 2021 in the Sri Lankan context, the regulatory authorities and public and private sector working groups in several jurisdictions have been discussing the alternatives to IBORs as there is still uncertainty over when these alternative rates will be available and how the reforms will impact specific financial products and services.<br>The Bank is well poised to comply with the amendments made to the Accounting Standards issued but not yet effective as at the reporting date, as disclosed in Note 11 to the Financial Statements. | 271 |
| | | | **Tax legislature**<br>The Bank is well poised to act as the collecting agent for Withholding Tax/Advance Income Tax/Advance Personal Income Tax which was introduced on Interest, Dividend, Rent, Service Fees, Employment income etc., effective from January 01, 2023. In order to comply with the new legislature, modifications to computer systems have been made and new processes have been introduced within the entire branch network of the Bank in Sri Lanka. | |

| | Disclosure requirement | Reference to the relevant statute/rule | Page reference for compliance and other necessary disclosures | Page/s |
|---|---|---|---|---|
| 37. | Sustainability | RBP | The Bank is an early champion of adopting sustainability practices and sustainability reporting. The Bank has considered the sustainability aspects when formulating its business strategies. | |
| | | | Annex 3: GRI Content Index | 424 and 429 |
| 38. | Human Resources | RBP | The Bank continues to invest in Human Capital Development and implement effective Human Resource Practices and Policies to improve workforce efficiency, effectiveness and productivity and also to foster collaborative partnerships that enrich the work and learning environment for our staff. | |
| | | | Specific measures taken in this regard are detailed in the "Report of the Board Human Resources and Remuneration Committee" | 177 and 178 |
| | | | Refer Management Discussion and Analysis | 58 to 137 |
| 39. | Technology | RBP | As encapsulated in the Vision and the Mission, our business processes are underpinned by technology. All of our processes involve information technology, and we use technology to deliver superior products and services to our customers. Correspondingly, the business is more heavily intertwined with technology than ever before. | |
| | | | Key achievements in this regard during the year are detailed in the "Report of the Board Technology Committee". | 184 and 185 |
| 40. | Operational excellence | RBP | To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms. | |
| 41. | Outstanding Litigation | RBP | In the opinion of the Directors and in consultation with the Bank's lawyers, litigation currently pending against the Bank will not have a material impact on the reported financial results or future operations. | |
| | | | Note 59 to the Financial Statements: Litigation Against the Bank | 346 and 347 |
| 42. | Disclosure on Related Party Transactions | LR 9.3.2 (a) and (b) | Note 62 to the Financial Statements: Related Party Disclosures | 352 to 356 |
| | | LR 9.3.2 (c) | Report of the Board Related Party Transactions Review Committee | 179 and 180 |
| | | LR 9.3.2 (d) | Statement of Annual Report of the Board of Directors | 3 |
| 43. | Annual General Meeting and the Notice of Meeting | CA S.133 and CA S.135 (a) | The 54th AGM of the Bank will be held at the Galadari Hotel, "Grand Ballroom", No. 64, Lotus Road, Colombo 01, on Thursday, March 30, 2023 at 2.30pm.<br>Notice relating to the 54th AGM of the Bank is enclosed at the end of the Annual Report. | |

# Statement of Directors' Responsibility for Financial Reporting

The Statement sets out the responsibility of the Board of Directors, in relation to the Financial Statements of the Commercial Bank of Ceylon PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries and the Associate (the Group).

The responsibilities of the External Auditors in relation to the Financial Statements are set out in the "Independent Auditors' Report" given on pages 232 to 234.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007 and amendments thereto, the Board of Directors of the Bank is responsible for ensuring that the Group and the Bank keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Group and the Bank as at the end of each financial year and of the financial performance of the Group and the Bank for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at December 31, 2022, the Income Statement and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto of the Group and the Bank.

Accordingly, the Board of Directors confirms that the Financial Statements of the Group and the Bank give a true and fair view of the

- financial position of the Group and the Bank as at December 31, 2022; and
- financial performance of the Group and the Bank for the financial year then ended.

## Compliance report

The Board of Directors also wishes to confirm that:

(a) appropriate Accounting Policies have been selected and applied in preparing the Financial Statements exhibited on pages 237 to 386 based on the latest financial reporting framework on a consistent basis, while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained;

(b) the Financial Statements for the year ended December 31, 2022, prepared and presented in this Annual Report are in agreement with the underlying books of account and are in conformity with the requirements of the following:
- Sri Lanka Accounting Standards;
- Companies Act;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto;
- Listing Rules of the Colombo Stock Exchange (CSE); and
- Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);

(c) these Financial Statements comply with the prescribed format issued by the CBSL for the preparation of annual financial statements of licensed commercial banks;

(d) proper accounting records which correctly record and explain the Group's and the Bank's transactions have been maintained as required by the Section 148 (1) of the Companies Act to determine at any point of time the Group's and the Bank's financial position, with reasonable accuracy, enabling preparation of the Financial Statements, in accordance with the Companies Act to facilitate proper audit of the Financial Statements;

(e) they have taken appropriate steps to ensure that the Group and the Bank maintain proper books of account and review the financial reporting system directly by them at their regular meetings and also through the BAC, the Report of which is given on pages 168 to 171. The Board of Directors also approves the Interim Financial Statements prior to their release, following a review and recommendation by the BAC;

(f) they accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report;

(g) they have taken reasonable measures to safeguard the assets of the Group and the Bank and to prevent and detect frauds and other irregularities. In this regard, the Board of Directors has instituted an effective and comprehensive system of internal controls comprising of internal checks, internal audit and financial and other controls required to carry on the business of banking in an orderly manner and safeguard its assets and secure as far as practicable, the accuracy and reliability of the records. The "Directors" Statement on Internal Control over Financial Reporting' is given on pages 197 and 198;

(h) to the best of their knowledge, all taxes, duties and levies payable by the Bank and its Subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank and its Subsidiaries, and all other known statutory dues as were due and payable by the Bank and its Subsidiaries as at the Reporting date have been paid or, where relevant, provided for, except as specified in Note 59 to the Financial Statements on "Litigation against the Bank" on pages 346 and 347.

(i) as required by the Section 56 (2) of the Companies Act, they have authorised distribution of the dividends paid and proposed upon being satisfied that the Bank and all its Subsidiaries, subject to complying with all the conditions imposed by the CBSL, would satisfy the solvency test after such distributions are made in accordance with the Section 57 of the Companies Act and have obtained in respect of dividends paid and proposed, and also for which approval is now sought, necessary certificates of solvency from the External Auditors;

(j) as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Bank, who have expressed desire to receive a hard copy. A soft copy of this Annual Report has also been hosted in the Investors section of the Bank's website *(https://www.combank.lk/investors)*, in addition to the soft copy thereof available in the CSE website, for the benefit of other shareholders within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) of Listing Rules of the CSE, instead of sending a soft copy in a CD. Further, an interactive html version of the Annual Report too has been hosted in the Bank's website *(https://www.combank.lk/investors)*;

(k) that all shareholders in each category have been treated equitably in accordance with the original terms of issue;

(l) that the Bank and its quoted subsidiary have met all the requirements under the Section 07 of Continuing Listing Requirements of the Listing Rules of the CSE, where applicable;

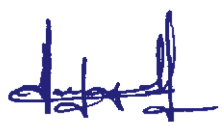
(m) that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the "Code of Best Practice on Corporate Governance 2017" issued by the CA Sri Lanka, the Board of Directors has a reasonable expectation that the Bank and its Subsidiaries possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements;

(n) the Financial Statements of the Group and the Bank have been certified by the Chief Financial Officer, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act and also have been signed by three Directors and the Company Secretary of the Bank on February 24, 2023 as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act and other regulatory requirements; and

(o) the Bank's External Auditors, Messrs Ernst & Young who were appointed in terms of the Section 158 of the Companies Act and in accordance with a resolution passed at the last Annual General Meeting held on March 30, 2022, were provided with every opportunity to undertake the inspections they considered appropriate. They carried out reviews and sample checks on the system of internal controls as they considered appropriate and necessary for expressing their opinion on the Financial Statements and maintaining accounting records. They have examined the Financial Statements made available to them by the Board of Directors of the Bank together with all the financial records, related data and Minutes of shareholders' and Directors' Meetings and expressed their opinion in the "Independent Auditors' Report" which appears as reported by them on pages 232 to 234.

Accordingly, the Board of Directors is of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



**R A P Rajapaksha**
Company Secretary

Colombo

February 24, 2023

# Directors' Statement on Internal Control over Financial Reporting

### Responsibility

The Board of Directors (the Board) of Commercial Bank of Ceylon PLC (the Bank) wish to present this Report on Internal Control over Financial Reporting, in line with the Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, and Principle D.1.5 of the Code of Best Practice on Corporate Governance 2017 (Code) issued by CA Sri Lanka.

The Board is responsible for the adequacy and effectiveness of the system of internal controls in place at the Bank. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process has been well in place for many years which includes enhancing the system of internal controls 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" issued by CA Sri Lanka. The Board has assessed the internal controls taking into account all main principles for the assessment of internal control system as given in that guidance.

The Board is of the view that the system of internal controls in place over financial reporting 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 done 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 risks and controls by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

### Key features of the process adopted in applying and reviewing the design and effectiveness of the Internal Control System on 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:

- Nine Board committees have been established by the Board, including those mandatory committees as required by the Banking Act Direction No. 11 of 2007 and the Listing Rules of the Colombo Stock Exchange, to assist the Board in ensuring the effectiveness of the Bank's daily operations and that the Bank's operations are conducted in line with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- Policies/Charters have been developed covering all functional areas of the Bank and these have been recommended by Board appointed Committees and approved by the Board. Such policies and Charters are reviewed and approved at least annually.
- The Inspection/Internal Audit Department/ Information Systems Audit Unit of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems/Information System controls on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Further, Onsite, Online and Offsite audits are carried out covering all departments, branches, subsidiaries and overseas operations in accordance with the annual audit plan reviewed and approved by the Board Audit Committee (BAC). The type and frequency of audits of Business units are determined by the level of risk assessed, to provide an independent and objective report. Findings of the internal audits are submitted to the BAC for review at its periodic meetings for initiating necessary action. Initiatives taken by the Inspection/Internal Audit Department to audit certain selected areas of the business units "online" during the year 2016 on a limited scope, were gradually expanded over the years and covered all Branches in Sri Lanka and Bangladesh, Corporate Banking Unit, Digital Banking Unit, Card Center, Treasury, Finance, and Subsidiaries – CBC Finance Limited, Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited during 2022 as well. Scope of Online, near time and real time audits was further enhanced to cover high risk transactions of the Bank. In addition, monitoring over cyber security controls, modifications to core banking systems/databases was further strengthened utilising appropriate tools/ techniques and resources. Through this initiative, the controls are being tested on a near or real time basis. A significant improvement in methodology was achieved by testing the entire population of the data rather than a random sample. Also, Offsite/Online audit introduced during 2020 were continued in 2022 as well to test and verify internal controls relating to Credit area of Branches. The findings were tabled at the meetings of the BAC for review and for initiating necessary action. The "Online Auditing" initiative has further strengthened the review of the design and effectiveness of the internal control system of the Bank.
- The BAC reviews internal control issues identified by the Inspection/Internal Audit Department, co-sourced internal auditors, regulatory authorities, external auditors and the Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The BAC also carries out an annual evaluation to review the effectiveness of internal audit function with particular emphasis on the scope, quality, independence of internal audit and the resources. The Minutes of the BAC meetings are tabled at the meetings of the Board of Directors of the Bank on a periodic basis. Details of the activities undertaken by the BAC are set out in the 'Report of the Board Audit Committee' which appears on pages 168 to 171.

- In assessing the internal control system over financial reporting, identified officers of the Bank continued to review and update all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. The Inspection/Internal Audit Department continued to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis. The assessment included both local and overseas subsidiaries and the Bangladesh operations of the Bank as well.

Since the adoption of the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments", which became effective from January 01, 2018, the Bank introduced and implemented the processes that are required to comply with the requirements of recognition, measurement, presentation and disclosures under the above Accounting Standard. Further, these processes were continuously strengthened based on the feedback received from the External Auditor, Inspection/Internal Audit Department, regulators and the BAC. Continuous monitoring is in progress and steps are being taken to further improve the processes where required, and to enhance effectiveness and efficiency. The Bank has documented the procedures relating to these requirements and updates the procedure manuals as and when necessary and also obtained approval of the Board with the recommendation of the BAC for changes made to the documented procedures. The Bank's Inspection/Internal Audit department commenced testing these processes since first quarter 2013 and continued to do so and the outcome of such exercise was tabled regularly for review by the BAC during the year 2022 as well. Having recognised the need to introduce an automated platform for various computations required under SLFRSs and LKASs including loan impairments, the Bank automated impairment calculations through a renowned software solution and this project was completed during the final quarter of 2021. However, the Bank decided to continue with the manual calculation of impairment as a parallel exercise despite the live deployment of the software solution. This is because impairment calculations require continuous refinements given the macro-economic challenges faced by the country, the consequent impact on the Bank's customers in most of the industries and the evolving regulatory requirements which are in addition to the requirements of the Sri Lanka Accounting Standards. In addition, the Bank also took steps to document the entire Financial Statements Closure Process in 2021 with the support of an external consultant, and the same was validated by an independent consultant. These proactive measures helped the Bank to ensure that the Bank is in compliance with the requirements of the Banking Act Direction Nos. 13 and 14 on "Classification, Recognition and Measurement of Credit Facilities and other Financial Assets in Licensed Banks" issued by the Central Bank which became effective from January 01, 2022.

The comments made by the External Auditor in connection with the internal control system over financial reporting in previous years were reviewed during the year and necessary steps were taken to address them where appropriate. The recommendations made by the External Auditor in 2022 in connection with the internal control system over financial reporting system will be dealt with in the future.

The Assurance Report of the External Auditors in connection with internal control over financial reporting appears on page 199.

## Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Bank has been designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## Review of the Statement by External Auditors

The External Auditor, Messrs Ernst & Young, has reviewed the above Directors' Statement on Internal Control included in this Annual Report for the year ended December 31, 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 system over financial reporting of the Bank. Their independent assurance report on the "Directors" Statement on Internal Control over Financial Reporting is given on page 199 of this Annual Report.

By Order of the Board,

**Prof A K W Jayawardane**
Chairman

**S Muhseen**
Deputy Chairman

**R Senanayake**
Chairman – Board Audit Committee

**S C U Manatunge**
Managing Director/Chief Executive Officer

Colombo

February 24, 2023

# Independent Assurance Report

**To the Board of Directors of Commercial Bank of Ceylon PLC**

Building a better working world

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

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

HMAJ/WDPL

## Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Commercial Bank of Ceylon PLC ("the Bank") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended December 31, 2022.

## Management's responsibility

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

## Our Independence and quality control

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

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Our responsibilities and compliance with SLSAE 3050 (Revised)

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Bank.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by The institute of Chartered Accountants of Sri Lanka.

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

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

## Summary of work performed

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

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

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

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

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

## Our conclusion

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

**Chartered Accountants**

Colombo

February 24, 2023

# Managing Director/Chief Executive Officer's and Chief Financial Officer's Statement of Responsibility

The Financial Statements of the Commercial Bank of Ceylon PLC (the Bank) and the Consolidated Financial Statements of the Bank and its Subsidiaries and the Associate (the Group) as at December 31, 2022 are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards;
- Companies Act;
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
- Banking Act No. 30 of 1988 and amendments thereto and the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka (CBSL);
- Listing Rules of the Colombo Stock Exchange (CSE); and
- Code of Best Practice on Corporate Governance 2017 issued by the CA Sri Lanka

The formats used in the preparation of the Financial Statements and disclosures made in this Annual Report and the Interim Financial Statements comply with the specified formats prescribed by the CBSL.

The Group presents the financial results to its shareholders on a quarterly basis.

The Significant Accounting Policies have been consistently applied by the Group. Application of Significant Accounting Policies and estimates that involve a high degree of judgement and complexity were discussed with the members of the BAC and Bank's External Auditors. Comparative information has been amended to comply with the current presentation, where applicable.

There were no changes to the Accounting Policies and methods of computation since the publication of the Annual Report for the year ended December 31, 2021. Accordingly, there was no necessity to amend the comparative information to comply with the current presentation.

We confirm that to the best of our knowledge, the Financial Statements, Significant Accounting Policies and other financial information included in this Annual Report, fairly present in all material respects the financial position, results of the operations and the Cash Flows of the Group during the year under review. We also confirm that the Group has adequate resources to continue in operation and has applied the Going Concern basis in preparing these Financial Statements.

We are responsible for establishing, implementing and maintaining Internal Controls and Procedures within the Bank and all of its Subsidiaries and the Associate. We ensure that effective Internal Controls and Procedures are in place, ensuring material information relating to the Group are made known to us for safeguarding assets, preventing and detecting fraud and/or error as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. We have evaluated the Internal Controls and Procedures of the Group for the financial period under review and are satisfied that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures, to the best of our knowledge. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and detection of fraud that involves management or other employees. The Bank's Inspection/ Internal Audit Department also conducts periodic reviews to ensure that the Internal Controls and Procedures are consistently followed.

The Financial Statements of the Group were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given on page 232 The BAC pre-approves the audit and non-audit services provided by Messrs Ernst & Young, in order to ensure that the provision of such services does not contravene with the guidelines issued by the CBSL on permitted non-audit services or impair Ernst & Young's independence and objectivity.

The BAC, inter alia, reviewed all the Internal and External Audit and Inspection Programmes, the efficiency of Internal Control Systems and Procedures and also reviewed the quality of Significant Accounting Policies and their adherence to Statutory and Regulatory requirements, the details of which are given in the 'Report of the Board Audit Committee' appearing on pages 168 to 171 The Bank engaged the services of four firms of Chartered Accountants approved by the CBSL to strengthen the audit and inspection functions. The continuous inspection and audit functions, engagement of firms of Chartered Accountants and effective functioning of the BAC, ensure that the Internal Controls and Procedures are followed consistently. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the BAC to discuss any matters of substance. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal control and accounting.

It is also declared and confirmed that the Group and the Bank have complied with and ensured compliance with the guidelines for the audit of listed companies where mandatory compliance is required.

We confirm that to the best of our knowledge:

- The Group and the Bank have complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group and the Bank other than those disclosed in Note 59 on pages 346 and 347 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Group and the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and the Bank as at December 31, 2022 have been paid, or where relevant provided for.

**S C U Manatunge**
*Managing Director/Chief Executive Officer*

**K D N Buddhipala**
Chief Financial Officer

Colombo

February 24, 2023

# Directors' interest in contracts with the Bank

Related party disclosures as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures" is disclosed in Note 62 to the Financial Statements on pages 352 to 356 of this Annual Report. In addition, the Bank carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities.

Table – 49

| Director/Company | Relationship | Accommodation granted/deposits | | Current limit as at 31.12.2022 Rs '000 | Balance/outstanding as at 31.12.2022 Rs '000 | Balance/outstanding as at 31.12.2021 Rs '000 |
|---|---|---|---|---|---|---|
| (a) **Prof A K W Jayawardane** | | | | | | |
| Sierra Cables PLC | Independent/ Non-Executive Director | Loans and advances | Combined | 1,540,000 | 625,238 | 440,883 |
| | | Off-balance sheet accommodations | Limits available | 878,450 | 367,888 | 706,947 |
| | | Deposits | | | 91,664 | 360,802 |
| Mother Lanka Foundation | Director | Loans and advances | | 309 | 309 | 985 |
| | | Deposits | | | 2,913 | 1,360 |
| CBC Tech Solutions Limited | Chairman | Loans & Advances | | 250 | 7 | 37 |
| | | Off Balance Sheet Accommodations | | 4,506 | 4,506 | – |
| | | Deposits | | | 295,306 | 216,981 |
| Arthur C Clarke Institute for Modern Technologies | Member, Board of Governance | Deposits | | | 27 | 27 |
| (b) **Mr S Muhseen** | | | | | | |
| Amana Takaful Life PLC | Director | Deposits | | | 6,699 | 125,925 |
| CBC Finance Ltd. | Director | Loans & Advances | | 2,708,916 | 2,266,942 | 1,547,222 |
| | | Deposits | | | 78,609 | 151,391 |
| (c) **Mr S C U Manatunge** | | | | | | |
| Commercial Development Company PLC | Managing Director | Loans & Advances | | 71,423 | 71,423 | 1,626 |
| | | Deposits | | | 276,666 | 99,371 |
| International Chamber of Commerce – Sri Lanka | Vice Chairman | Deposits | | | 57,424 | 9,757 |
| Commercial Bank of Maldives Private Limited | Deputy Chairman | Off Balance Sheet Accommodations | | 734,000 | 734,000 | 400,000 |
| | | Deposits | | | 768,801 | 303,576 |
| (d) **Mr L D Niyangoda** | | | | | | |
| A. Baur & Co (Pvt.) Ltd. | Chairman | Loans and advances | Combined | 3,500,000 | 4,495,634 | 3,881,216 |
| | | Off-balance sheet accommodations | Limits available | 7,135,500 | 3,947,700 | 3,532,551 |
| | | Deposits | | | 5,221,681 | 3,313,677 |
| (e) **Ms N T M S Cooray** | | | | | | |
| Ceylon Tea Brokers PLC | Non-Executive Director | Deposits | | | 4,898 | 2,491 |
| Jetwing Hotels Ltd. | Chairman | Deposits | | | 3,801 | 1,898 |
| Negombo Hotels Ltd. | Director | Deposits | | | 3,222 | 2,211 |
| The Lighthouse Hotel PLC | Executive Director | Deposits | | | 22,973 | 20,362 |
| Jetwing Travels (Pvt) Ltd. | Chairman/Managing Director | Loans and advances | | 32,500 | 190 | 8,433 |
| | | Off-balance sheet accommodations | | 100,000 | 93,895 | 51,282 |
| | | Deposits | | | 2,347,275 | 1,789,610 |
| Jetwing Air (Pvt) Ltd. | Director | Loans and advances | | 20,000 | – | 12,500 |
| | | Off-balance sheet accommodations | | 165,000 | 104,666 | 35,499 |
| | | Deposits | | | 150,487 | 77,622 |
| Jetwing Hotel Management Services (Pvt) Ltd. | Director | Deposits | | | 26 | 26 |
| Allianz Insurance Lanka Ltd. | Independent/ Non-Executive Director | Deposits | | | 27,374 | 57,540 |
| Go Vacation Lanka Co. (Pvt) Ltd. | Director | Deposits | | | 4,088 | 1,683 |
| Allianz Life Insurance Lanka Ltd. | Independent/ Non-Executive Director | Deposits | | | 491 | 2,524 |
| Yarl Hotels (Pvt) Ltd. | Director | Deposits | | | 27 | 3 |
| Jetwing Symphony Ltd. | Executive Director | Deposits | | | 211,450 | 928 |
| Capital Alliance Holdings Ltd. | Director | Deposits | | | 1,880 | 1,880 |
| Saman Villas Ltd. | Director | Deposits | | | 456 | – |

| Director/Company | Relationship | Accommodation granted/deposits | | Current limit as at 31.12.2022 Rs '000 | Balance/outstanding as at 31.12.2022 Rs '000 | Balance/outstanding as at 31.12.2021 Rs '000 |
|---|---|---|---|---|---|---|
| **(f) Mr R Senanayake** | | | | | | |
| Senkadagala Finance PLC | Independent/ Non-Executive Director | Loans & Advances | | 4,900,100 | 2,933,270 | 2,062,463 |
| | | Off-balance sheet accommodations | | | – | 23,093 |
| | | Deposits | | | 2,045,302 | 1,265,478 |
| Virtual Capital Technologies (Pvt)Ltd. | Director | Deposits | | | 17 | 22 |
| **(g) Dr S Selliah** | | | | | | |
| Asiri Hospital Holdings PLC | Deputy Chairman | Loans and advances | Combined | 2,416,166 | 2,436,856 | – |
| | | Off-balance sheet accommodations | Limits available | 305,000 | – | – |
| | | Deposits | | | 15,434 | – |
| Asiri Surgical Hospital PLC | Deputy Chairman | Loans and advances | Combined | 192,562 | 227,682 | – |
| | | Off-balance sheet accommodations | Limits available | 305,000 | – | – |
| Central Hospitals Ltd. | Deputy Chairman | Loans and advances | | 1,291,085 | 1,333,652 | – |
| | | Deposits | | | 745 | – |
| Lanka Tiles PLC | Director | Loans and advances | Combined | 200,000 | – | – |
| | | Off-balance sheet accommodations | Limits available | 400,000 | – | – |
| | | Deposits | | | 482,778 | – |
| HNB Assurance PLC | Senior Director | Deposits | | | 1,582 | – |
| ACL Cables PLC | Director | Deposits | | | 736 | – |
| Odel PLC | Director | Loans and advances | | 50,000 | 48,678 | – |
| | | Off-balance sheet accommodations | | 204,419 | 204,419 | – |
| | | Deposits | | | 1,504 | – |
| Lanka Walltiles PLC | Director | Loans and advances | Combined | 720,000 | 1,056,852 | – |
| | | Off-balance sheet accommodations | Limits available | 890,370 | 205,630 | – |
| | | Deposits | | | 53,224 | – |
| Cleanco Lanka (Pvt) Ltd. | Chairman | Loans and advances | | 250 | 24 | – |
| | | Deposits | | | 215,853 | – |
| Swisstek (Ceylon) PLC | Director | Deposits | | | 9,039 | – |
| JAT Holdings PLC | Chairman | Loans and advances | Combined | 757,950 | 924,515 | – |
| | | Off-balance sheet accommodations | Limits available | 1,137,493 | 415,117 | – |
| | | Deposits | | | 44,647 | – |
| Arunodhaya (Pvt) Ltd. | Director | Loans and advances | | 55,000 | – | – |
| | | Deposits | | | 52 | – |
| Arunodhaya Industries (Pvt) Ltd. | Director | Loans and advances | | 55,000 | – | – |
| | | Deposits | | | 52 | – |
| Andysel (Pvt) Ltd. | Chairman | Loans and advances | | 47,000 | – | – |
| | | Deposits | | | 52 | – |
| Swisstek Aluminium Limited | Director | Loans and advances | Combined | 240,969 | 702,940 | – |
| | | Off-balance sheet accommodations | Limits available | 975,000 | – | – |
| | | Deposits | | | 14,911 | – |
| Arunodhaya Investments (Pvt) Ltd. | Director | Loans and advances | | 55,000 | – | – |
| | | Deposits | | | 52 | – |
| **(h) Mr S Prabagar** | | | | | | |
| Commercial Bank of Maldives Private Limited | Director | Off Balance Sheet Accommodations | | 734,000 | 734,000 | 400,000 |
| | | Deposits | | | 768,801 | 303,576 |

# Risk Governance and Management

The year 2022 marked a period of unprecedented challenges in the Bank's risk management landscape as the operating environment turned out to be volatile, uncertain, complex, and ambiguous. In the aftermath of the global COVID-19 pandemic, the interconnected and intricate external global environment developed a fragile geo-political backdrop, exacerbated by the invasion of Ukraine by Russia, rising global inflation, catastrophes induced by climate change, disruptions to food, energy and supply chains, cyber insecurity, and waning dominance of the US Dollar that made the external environment volatile. On the domestic front, the local economy, which was slowly recovering from the lingering effects of the Easter Sunday debacle of 2019 and COVID-19 pandemic was disrupted by the social unrest over the political landscape enflaming public sentiment that sparked a wave of fiery protests and a change of government, as the economy of Sri Lanka stood battered by domestic turbulence on top of the global tensions. Arbitrary changes made on agricultural policy frameworks, drop in worker remittances, acute Foreign Currency Shortage developed as a result of dwindling external reserves, sovereign debt downgrade, unsustainable levels of public debt, shortages in liquidity, sharp depreciation of the Rupee, import restrictions, severe shortage of petroleum products and an unprecedented rise in inflation that required policy action by way of an increase in interest rates worsened the turbulence in the local economy. These developments collectively caused a severe contraction in economic activities and defined the Sri Lankan operating environment in 2022.

Bangladesh, which was riding on a wave of growth in the decade from 2009-2019 reversed the trend in 2020. However, a broad-based recovery of Bangladesh economy appeared to have continued in fiscal year 2022 and the Bangladesh Bureau of Statistics has estimated 7.25% real GDP growth for the fiscal year 2022.

A detailed analysis of the global and local operating environment that provided context to the Bank's performance in 2022 and efforts in the sphere of risk governance and management is given under 46 on page 51.

In such an environment of rapid change and uncertainty, the resilience of the Bank was under pressure. The Intergraded Risk Management Department (IRMD) took on the challenge of balancing the risk levels faced by the Bank within the risk appetite parameters of the Bank while at the same time supporting innovation and growth and delivering the desired results for stakeholders.

### Elevated risk landscape

Due to the factors enumerated above, the inherent risk levels across all categories of risk reached a new high in the period under review. With close monitoring and assessment, the IRMD made every effort to optimally balance the need to mitigate or eliminate the risks with the level of risk that the Bank is willing to accept in achieving its organisational goals. To this end, the IRMD monitored, assessed and managed the risk levels within the acceptable risk levels. The lending portfolio of the Bank was exposed to an elevated credit risk environment leading to rising defaults and hence, a gradual deterioration of the asset quality. The Bank has substantial investments on government securities that were positioned as relatively bleak in their outlook during the year due to the default in debt repayments increased interest rates. Market risks were aggravated by the sharp rise in interest rates and lack of foreign currency liquidity. Operational risks were brought to the surface by suspect practices such as terrorist financing, money laundering, and other contentious behaviours. With remote working enabled during most part of the year due to the situation that prevailed in the economy, cyber risks were elevated with increasing frequency and magnitude of cybercrimes and system interruptions/ failures etc. The subdued earnings that were a result of the stressed economic conditions gave rise to strategic risks with the declining capital adequacy, credit rating downgrades, and consequent impact on dealings with international counterparties, and growing urgency to pivot the conventional business model. A host of emerging risks too brought forth ramifications, which are discussed later in this report.

Despite the risk landscape undergoing rapid changes and the resultant significant stresses, the Bank operated with utmost vigilance and maintained operational resilience during the year by being incisive, adaptable, and innovative in managing the many risks associated with the business model. Introduction of the Sustainability Framework (Refer page 52) helped the Bank to identify and account for new risks in areas such as diversity, equity, and climate change as environment, sustainability, and governance (ESG) issues are brought to the heart of the corporate landscape. The Bank's fundamental guiding imperative of prudent growth has allowed it to remain a stable and responsible value creator throughout, empowering its stakeholders to meet their financial ambitions. Pragmatic exercises of conducting risk-control self-assessments, regular evaluations of risk management processes and tools, probing the Key Risk Indicators (KRIs) in relation to the traffic of risks, testing business continuity and disaster recovery plans, and the strict compliance to laws, regulatory guidelines, and internal controls in all areas of the business operations helped the Bank manage risks commendably.

In relative terms, the success of these efforts is evident from the moderate risk profile the Bank has maintained in line with its risk parameters (Refer Table 50 on page 206) and the results of operations and the financial position as given in the financial statements published in this Annual Report.

### Business model and risk

Being a commercial bank, the Bank's business model is tap-rooted in the two primary activities of financial intermediation and maturity transformation (Refer Business Model for Sustainable Value Creation on pages 52 to 57). This has enabled the Bank to gear its capital of Rs. 203.699 Bn. 11 times to operate with an on-balance sheet asset base of Rs. 2,425.798 Bn. as of December 31, 2022. Based on the amount of capital allocated as per the Basel capital adequacy requirements, the higher level of gearing exposes the Bank to a multitude of risks, which conventionally include credit risk, operational risk, and market risk. Furthermore, due to various emerging developments, a host of ancillary risks have arisen which are threatening to disrupt the business model of the Bank (Refer page 74 for a list of such emerging developments). These risks together with the developments referred to in the paragraphs above materially impacted almost all the main risk categories of the Bank. Nevertheless, the robust risk governance framework and the rigorous risk management function helped the Bank; manage the associated risks, optimise the trade-off between risk and return, and continue sustainable value creation.

The credit rating, business franchise and steady financial performance helped the Bank to maintain stability and retain confidence of the stakeholders, depositors in particular and ensure that there was no unwanted stress on liquidity despite the liquidity crunch encountered in the market at specific times.

### Objectives

The primary objectives of the Bank's risk governance framework and risk management function are:

- to establish the necessary organisational structure for the management and oversight of risk;
- to define the desired risk profile in terms of risk appetite and risk tolerance levels;
- to institutionalise a positive risk culture within the Bank embodying values, beliefs, attitudes, and practices that drive highly effective risk decisions;
- to establish functional responsibility for decisions relating to accepting, transferring, mitigating, and minimising risks and recommending the best ways of doing so;
- to evaluate the risk profile against the approved risk appetite on an ongoing basis;
- to estimate potential losses that could arise from plausible risk exposures;
- to periodically conduct stress testing to ensure that the Bank holds sufficient buffers of liquidity and capital to honour contractual obligations and meet unexpected losses;
- to integrate risk management with strategy formulation and execution;
- to ensure efficient allocation of available capital to generate optimum risk-return trade-off and
- to promote better communication of risk across all levels of the Bank.

### Key challenges to risk management in 2022

The key challenges in relation to risk management in 2022 are detailed below:

- **Fall in demand for Credit** – the overall demand for private sector credit saw a substantial drop in the year under review due to the dampened economic conditions and high rates of interest that prevailed for most of the year. This led to a contraction in credit growth and a decline in the overall credit portfolio.
- **Heightened Credit Risk** – the high interest rates and the stressed economic conditions including the elevated inflation rates adversely affected the borrowers' repayment capacity, increasing the level of credit risk.
- **Provisioning for Government Securities** – the default by Sri Lanka's Government on its foreign currency debt resulted in the downgrading of the sovereign credit rating. The sizeable exposure of the Bank to Sri Lanka Development Bonds and Sri Lanka Sovereign Bonds that are denominated in foreign currency exposed the Bank to new risks as the debt holders had to brace for possible implications of non-payment of debt. This resulted in the need for impairment provisions for possible losses as a matter of prudence. Thus, gilt-edged securities lost their 'risk-free' characteristic and as a prudent measure, the Bank made an impairment provision of Rs. 47.134 Bn. on foreign currency denominated Government securities during the year.
- **"Masked" credit risk** – this is the risk the Bank is exposed to when financial risk assessment in which portions of an individual credit risk profile are hidden or obscured when determining a borrower's overall creditworthiness. The Bank had been compelled to help protect borrowers' privacy and reduce prejudice or discrimination when making lending decisions. The implications of masked credit risk are far-reaching as it can lead to a false sense of security at the Bank and hence, a lack of transparency in financial reporting. The Bank is therefore exposed to misallocation of capital, losses due to unexpected defaults, and even fraud, thus a high reputational risk as well.
- **Re-classifying the Government Securities portfolio** – a change of the existing business model of the Bank amidst the rapid changes taken place in the external environment necessitated a reclassification of the Government Securities portfolio. Accordingly, the Bank reclassified the portfolio to Amortised Cost from Fair Value through Other Comprehensive Income (FVOIC) in line with guidelines issued by the Institute of Chartered Accountants of Sri Lanka.
- **Steep rise in interest rates** – the CBSL increased its policy rates by 700 basis points in April 2022, in response to the rising inflationary pressures – the highest single rate increase ever reported. This was an unprecedented shock not only to the Bank but to the entire banking industry as the highest stress level hitherto considered for stress testing was around 300-400 basis points. This hike resulted in an upward movement of market interest rates, spiralling the interest rate risk for the Bank. The deposit base started growing faster, but the loan book was contracting, resulting in the Bank having to invest excess liquidity in Government Securities.
- **Managing the exchange risk** – The unprecedented exchange rate risk environment that emerged due to the sharp depreciation of the Sri Lankan Rupee from Rs. 200 to Rs. 367 against the US Dollar in 2022, as a result of the Government's external debt default announcement and the negative market liquidity that ensued after the discontinuation of the controlled currency peg, has been strategically utilised by the Bank as a key contributor to its bottom line by carrying appropriately positive open positions, in addition to the foreign currency (FCY) denominated retained profits of the offshore banking unit. However, the FCY depreciation referred to above has negatively contributed to an increase in the provision charge of the Bank's FCY-denominated bonds, which accounted for approximately 50% of the FCY assets.
- **Risk in Foreign Currency Liquidity** – given the dwindling foreign currency reserves and a fall in expatriate earnings and remittances, the foreign currency liquidity in the economy recorded low levels. The Bank was able to overcome this challenge to a great extent as a substantial share of the country's exports and inward FCY remittances are routed through the Bank. With this positioning, the Bank was able to help the importers that banked with us as well as the government and state-owned enterprises in funding their essential imports.
- **Increase in cost of funds** – in the backdrop of the rising LKR rates, including Treasury Bill rates, the Bank was compelled to increase the rate on its Rupee deposits. This paused challenges and exerted pressure on interest margins.
- **Challenges in balance sheet management** – with the turbulent economic environment, managing the balance sheet was a tremendous challenge. This task was undertaken through extensive discussions at Board and Management level committees including ALCO, Management Committee, and Board Investment Committee and Board level. These deliberations came up with strategies for the management of liquidity risk, interest rate risk and foreign exchange management risk as well as investment risk, all of which culminated in the management of balance sheet. Special attention had to be paid to re-investment risk in government securities.

- **Increased cyber security risk** – limited mobility that had to be endured by the general public due to the effects of the pandemic as well as limited availability of fuel propelled our customers to rely more on digital banking solutions. Furthermore, our staff too were compelled to work remotely for most of the year. This increased the threat of cyber security attacks. Therefore, the Bank prioritised and strengthened its cyber security measures and prevent associated remedial costs and reputational damage.
- **Challenges to business continuity** – numerous external factors impacted the operational resilience and business continuity of the Bank daily. The effects of the pandemic, social unrest, staff commuting issues, fuel shortages, power outages, political uncertainty, disruptions to supply chains, and providing systems access to staff working from remote locations among others challenged the Bank in providing uninterrupted services to its customers.
- **Increased compliance risk** – in the wake of the socio-political climate that prevailed and the resultant economic turmoil, maintaining regulatory compliance became increasingly challenging. Compliance teams continued to engage with the risk management team to ensure compliance with regulatory requirements to prevent any financial impact and regulatory sanctions due to non-compliance and avoid reputational risk.

## Key risk management initiatives adopted in 2022

In the wake of the above challenges, some of the major initiatives implemented to manage risks during 2022 include:

- **Identification of Risk Elevated Industries (REIs)** – In the milieu of contracting credit portfolios and deteriorating credit quality due to the unprecedented operating context that prevailed during the year 2022, some sectors were identified as "Risk Elevated Industries (REIs)." This was done through analysis to identify those facing heightened stress as a result of the challenges – based on patterns of the availing of moratoria by borrowers in the Bank's loan book and those who have been affected by economic stress and policy changes. The REI identification process was introduced in Bangladesh operations as well.
- **Continuous monitoring of the Capital Adequacy Ratio (CAR) through the Internal Capital Adequacy Assessment Process (ICAAP)** – the high levels of credit, market, and operational risk had an adverse impact on the Bank's earnings with a resultant impact on the CAR. The Bank used different stress levels to monitor the CAR through the ICAAP and maintained the CAR at healthy levels.
- **Preparation of a Recovery Plan** – a Recovery Plan was developed to map the recovery process, as required by the CBSL. This was a risk-based assessment of the Bank's ability to recover from a specified stressed situation. The recovery roadmap included the methodology of identifying risks, and the responsibility for each action item to recover from the risk, thereby assuring the Bank's capacity to overcome risks.
- **Risk management as an enabler in business innovation** – the IRMD acted as not just a preventer of risk but also played the role of a business enabler in identifying impacted business sectors through the REI. This enabled the Bank to assist borrowers in high-risk sectors to manage their business activities. In addition, credit risk rating mechanisms in financial subsidiaries/ associate companies were reviewed by the IRMD for improvements.
- **Implementing the Early Warning Signals (EWS) mechanism** – the EWS framework has greatly assisted the Bank to make early detection of credit risk by anticipating the incipient stress in borrowers that are likely to default through advanced analytical tools with predictive capabilities. This has enabled the Bank to take early action to prevent credit losses. The mechanism also monitors the correlation between the risk assessment-based grading assigned at the time of credit evaluation and the subsequent classification of such facilities under Non-Performing Credit Facilities (NPCF), and strengthened the underwriting standards for high-risk proposals. An EWS Health Council was set up to strengthen this process.
- **Continued efforts on capital optimisation** – the Basel Committee of the Bank continued its efforts to optimise capital through asset portfolio planning to assess losses under different scenarios and propose effective risk mitigation initiatives. This facilitated to plan the growth of the loan book based on capital adequacy requirements and address challenges in restructuring the Bank's balance sheet and managing the key components of CAR such as the Risk Weighted Assets and managing interest rate risk.
- **Providing independent advisory** – the IRMD played a pivotal role as an independent advisor in evaluating the upgrading of credit facilities in the credit evaluation process (upgrading from Stage 3 to Stage 2 or from Stage 2 to Stage 1).
- **Formulating and reviewing policies and procedures** – the IRMD reviewed the Bank's policies and procedures that were subject to annual review, and developed two new policies namely the Conduct Risk Management Policy Framework and the Policy on upgrading of Credit Facilities (upgrading credit facilities from Stage 3 to Stage 2 or from Stage 2 or Stage 1) in consultation with the stakeholder divisions. Approval for the new policies was obtained from the Board Integrated Risk Management Committee (BIRMC) and the Board.
- Credit score reports issued by the CRIB were incorporated into the internal rating module to evaluate and approve retail credit proposals to enhance credit quality.
- The operational incidents reporting process of the Bank was streamlined and all the insurance policies of the Bank were reviewed as well.
- The effectiveness of Management level committees was reviewed during the year and recommendations were made to effect the necessary improvements.
- **Capital augmentation plan** – a capital augmentation plan was developed by the Finance Department and the IRMD together with Treasury, Planning and Investment Banking departments provided the necessary assistance. This was consequent to the draw down of the Capital Conservation Buffer (CCB) as of March 31, 2022, as permitted by the CBSL. The capital augmentation plan was submitted to the CBSL with the approval of the Board.
- **Improving alignment with Social and Environmental Management System (SEMS)** – enhanced the alignment with social and environmental dimensions by incorporating climate aspects into the Bank's SEMS risk assessment introduced in 2010. The streamlining of the voucher posting, scanning, and validation process enhanced operational efficiency and contributed towards environmental and social management goals.

- **Improving credit underwriting and assessments** – the IRMD embarked on a project to analyse and comprehend the features of loans and advances transferred to NPCF within 12 months from granting. The learnings were used to improve the credit underwriting standards and credit assessments of the Bank.
- **Streamlining customer complaint handling** – customer complaint handling process was streamlined by implementing the customer complaint management system to improve customer satisfaction and enable better resolution of their grievances.
- **Strengthening cyber security** – the Bank conducted ongoing independent risk evaluations and monitored its IT risk profile based on the established key IT risk indicators. The Data Protection Impact Assessment was introduced in accordance with the Personal Data Protection Act No. 9 of 2002. Furthermore, several training programmes were conducted on the Data Protection Act with the assistance of external consultants for several layers of the Management and the Board. A data protection impact assessment was carried out and arrangements are being made to formalise the process and issue necessary guidelines and circular instructions.
- **Mitigating risks of overseas operations** – the risk-related activities of the Bangladesh operations were reviewed and Credit Risk Rating models were implemented for Commercial Bank Maldives, CBC Finance Ltd., CBC Myanmar Microfinance, and Bangladesh operations.

## Risk appetite and risk profile

The Board-approved Risk Appetite Statement articulates the types of risks, degrees of risks, and the maximum amount of aggregate risk exposure that the Bank is willing to assume at any given point in time. For ease of monitoring, the risk appetite is expressed in terms of quantitative parameters for all the important risk indicators under each risk category. It, among others, reveals the desired asset quality, maximum market and operational risk losses and minimum capital and liquidity requirements, taking into account the volatile operating environment, regulatory requirements, strategic focus, ability to withstand losses, and stress with the available capital, funding and liquidity positions and the robustness of the risk management framework.

The risk management function periodically reports the overall risk profile of the Bank to the Management, BIRMC, and the Board, in terms of certain Key Risk Indicators and a Risk Profile Dashboard. With the help of this information, the risk profile is rigorously monitored on an ongoing basis with the due consideration it deserves and swift remedial action is taken for any deviations to ensure that the actual risk exposures across all the risk categories are kept within the approved risk appetite.

With capital adequacy and liquidity positions that define the capacity to assume risk, the Bank's risk profile is characterised by a portfolio of high-quality assets and stable sources of funding sufficiently diversified in terms of geographies, sectors, products, currencies, size and tenors. The risk profile of the Bank's Sri Lankan operation as of 31 December 2022 and 31 December 2021 compared to the risk appetite as defined by the regulatory/Board approved policy parameters is given below:

Table – 50: **Risk profile**

| Risk category | Key Risk Indicator | Policy parameter | Actual position | |
|---|---|---|---|---|
| | | | **December 31, 2022** | December 31, 2021 |
| **Credit risk:** | | | | |
| Quality of lending portfolio | Impaired loans Stage 3 ratio (%) | 2 – 5 | **5.25** | 3.85 |
| | Impairment (Stage 3) to Stage 3 loans ratio (%) | 40 – 45 | **39.60** | 42.76 |
| | Weighted average rating score of the overall lending portfolios (%) | 35 – 40 | **51.14** | 52.60 |
| Concentration | Loans and advances by product – Highest exposure to be maintained as a percentage of the total loan portfolio (%) | 30 – 40 | **37.78** | 22.40 |
| | Advances by economic sub sector (using HHI-Herfindahl-Hirschman-index) | 0.015 – 0.025 | **0.0152** | 0.0149 |
| | Exposures exceeding 5% of the eligible capital (using HHI) | 0.05 – 0.10 | **0.0096** | 0.0063 |
| | Exposures exceeding 15% of the eligible capital (using HHI) | 0.10 – 0.20 | **0.0087** | 0.0053 |
| | Exposure to any sub sector out of total loan portfolio to be maintained at (%) | 4 – 5 | **4.05** | 4.49 |
| | Aggregate of exposures exceeding 15% of the eligible capital (%) | 20 – 30 | **19.61** | 9.98 |
| Cross border exposure | Rating of the highest exposure of the portfolio on S&P Investment Grade – AAA to BBB- | AA | **AAA** | AAA |

| Risk category | Key Risk Indicator | Policy parameter | Actual position | |
|---|---|---|---|---|
| | | | **December 31, 2022** | December 31, 2021 |
| **Market risk:** | | | | |
| Interest rate risk | Interest rate shock: (Impact to NII as a result of 100bps parallel rate shock for LKR and 25bps for FCY) | Maximum of Rs. 2,250 Mn. | **Rs. 392.20 Mn.** | Rs. 195.23 Mn. |
| | Re-pricing gaps (RSA/RSL in each maturity bucket – up to one- year period) | <1-1.5 Times (other than for the 1 month bucket which is <2.5 Times) | **0.56 Times (1.93 times for 1 month bucket)** | 0.77 Times (1.86 times for 1 month bucket) |
| Liquidity risk | Liquid Asset Ratio for Domestic Banking Unit (DBU) | 22% | **35.01%** | 38.73% |
| | Liquid Asset Ratio (LCR) for All Currencies | 100% | **293.91%** | 242.52% |
| | Net Stable Funding Ratio (NSFR) | 100% | **173.58%** | 157.47% |
| Foreign exchange risk | Exchange rate shocks on Total FCY exposure | Rs. 750 Mn. | **Rs. 725.73Mn.** | Rs. 373.47 Mn. |
| Operational risk | Operational loss tolerance limit (as a percentage of last three years average gross income) | 3% – 5% | **0.86%** | 0.78% |
| **Strategic risk:** | Capital adequacy ratios: | | | |
| | CET 1 | Over 8.5% | **11.389%** | 11.923% |
| | Total capital | Over 14% | **14.657%** | 15.650% |
| | ROE | Over 15% | **12.46%** | 14.660% |
| | Creditworthiness – Fitch Rating | AA(lka) | **A(lka)** | AA-(lka) |

*(RSA – Rate Sensitive Assets, RSL – Rate Sensitive Liabilities)*

## Credit rating

Having affirmed a National Long-term rating of AA-(lka) with a Stable Outlook by Fitch Rating in August 2021, the Bank witnessed a change in the rating outlook from Stable to Negative in April 2022. Accordingly, the AA-(lka) with a Negative Outlook was maintained by Fitch Ratings during 2022. Change of rating outlook from Stable to Negative was largely due to constrained access to foreign currency funding and the resulting indications of stress experienced by the banks in the system prevailed at that period. Further, given the heightened stress on the Bank's funding and liquidity, and its significant exposure to the sovereign via investment in foreign-currency instruments that raised risks to its overall credit profile.

Fitch Rating assessed that negative changes in the vital economic indicators such as inflation, exchange rates etc. had the potential to further distort the Bank's underlying financial performance in the year 2022. Economy's overall foreign currency liquidity issue also was factored in by the rating agency in arriving at their conclusion.

## Future outlook and plans for 2023 and beyond

The tumultuous economic conditions that prevailed during 2022 have been outlined earlier in this report. The resulting risk impacts on the Bank and how the Bank navigated the storm were elaborated in the preceding sections of this risk management report. As cited by the CBSL and research institutions, the Sri Lankan economy will show some signs of recovery in 2023. However, the world economy is showing signs of a very delicate balance with political tensions between nations threatening to disrupt world peace. Furthermore, predictions of a world recession, increase in prices of essential commodities, disruptions to supply chains, global inflation, food insecurity, and increasing incidents due to climate change are threatening the outlook for 2023.

In the local front, Sri Lanka continued to struggle amid low tax income and high debt burden. Supply shortages largely attributed to lack of foreign exchange liquidity and resultant social unrest escalated in 2022 to witness unprecedented political changes. Nevertheless, the country was sliding further downward when power and energy crisis almost paralyzed the economy for a considerable period within the year. This was unbearable for the economy as well as for its agents. CBSL made a drastic move to hike interest rates by 700 bps to curb inflation. Yet, the rate hike fueled sudden move of Rupee liquidity towards Government debt securities whilst sourcing credit for individuals and private sector almost impossible. Despite such, export sector continued to perform well bringing in much needed foreign exchange to the country. By the latter part of 2022, some confidence was evident in hard hit sectors such as tourism in the form of notable increase in foreign tourist arrivals. Renewed confidence, though small comparatively, motivated expatriates to increase foreign remittances. By the third quarter of the year, the economy was seeking a form of life-saving medicine in the form of financial aid from international funding agencies. Political stability was not high to be noted, but not so small to neglect by the end of the year.

In the aftermath of disasters the world has encountered as a result of climate change and the widespread awareness of sustainable finance, managing climate risk will be a topmost priority for governments and business entities alike. The initiatives that have taken place at the Bank over the past year will pave the way for a more methodical and sustainable approach to business.

It could be anticipated that risks would; become more unpredictable, increase in magnitude, and be interconnected. The Bank needs to be mindful of the connectivity of risks and contagion effects where one risk leads to a ripple effect on many other risks.

On the other hand, regulatory requirements are expected to be stringent in the wake of the emerging complexities of the economy and challenges to the industry. Regulations relating to anti-money laundering and sanction-related issues are likely to take centre stage. Thus, improved integrated risk management methodologies and systems will be critical in the coming years. The cost of doing business in terms of managing the risks will increase in tandem. The cost of non-compliance or the materialisation of an unanticipated risk, will be more devastating.

These developments necessitate further strengthening of the risk governance and risk assessment, and management function. Proactive anticipation of risks and implementing forward-looking measures to combat any adverse effects will be critical in such an environment. The rapid technological advancements and the use of Artificial Intelligence (AI) and Business Intelligence (BI) to drive business innovations will continue to take precedence in the future. Accordingly, the Bank will look at opportunities presented by such innovations to increase business growth and to manage the complicated, and intricate risks arising from these developments. The role of risk management will be to support the growth of the business by providing proactive and forward-looking risk management strategies, and being a true enabler of business.

The future of risk management will be driven by data and intelligence. Specific initiatives planned for 2023 and beyond will include:

- Introducing predictive capabilities into credit risk and operational risk supported by EWS and data analytics. This would facilitate effective prediction of risks and streamline capital requirements for such risks.
- The planned implementation of improved system capability in Q1 2023 by investing in a new system (FIS) in the Treasury function to facilitate market risk analysis.
- Following the implementation of Risk Control Self Assessment (RCSA) framework in CBC Myanmar Microfinance company and CBC Finance Ltd. during 2022, the framework is planned to be implemented in Commercial Insurance Brokers (Pvt.) Ltd. in 2023.
- Effecting further improvements to the collateral allocation process to enhance collateral optimisation by revisiting the security module in the Loan originating System (LOS).
- Enhancing the analytical capabilities of the EWS to capture retail lending (credit cards, personal loans and home loans) products in addition to SME lending, and providing business units with EWS analysis for effective business decisions and objective business growth.
- Enhancing the efficiency of risk control mechanisms and processes through knowledge enhancement on critical IT systems adopted in the Bank and through the introduction of benchmarked tools and effective software support.
- Improving the automation of impairment assessments with a high degree of objectivity and accuracy with the assistance of the Data Analytics Unit to ensure data interconnectedness.
- Introducing an intelligent Credit Risk Review (CRR) tool coupled with a workflow capability through a data repository to facilitate pattern recognition and proactive decision-making.
- Converging EWS with internal risk rating applicable to the SME lending portfolio and optimise Turn Around Time (TAT) of SME credit evaluations.
- Introducing behavioural decision-making models to selected retail lending products (credit cards and personal loans) through data analytic capabilities.
- Introducing a system-based mechanism to make available cross-border counterparty exposure and sanctioned limits on a real-time basis.
- Introducing a predictive model to estimate future trends and forecasts on the "movement of net cash flows from operating activities" of borrowers (listed and unlisted corporates).
- Introducing a climate risk assessment tool in line with emerging global initiatives to continue the pioneering activities of driving the ESG agenda. The Executive Sustainable Banking Committee established towards the end of 2022 will develop an ESG framework, and identify, and assess ESG risks and opportunities of the Bank.

## Risk management framework

The Bank has a comprehensive IRMF, developed based on the CBSL guidelines and the Three Lines of Defence model, which takes into account the different roles played by the different departments of the Bank and their interplay determine the effectiveness of the Bank in dealing with risk. It is a structured approach to managing all its risk exposures and is underpinned by rigorous organisational structures, systems, processes, procedures, and industry/global best practices taking into account all plausible risks, potential losses, and uncertainties the Bank is exposed to. The Three Lines of Defence model, which is the international standard, enables the Bank to have specific skills and a framework for managing risk and guides its day-to-day operations with the optimum balance of responsibilities.

The IRMF is subject to an annual review or more frequently if the circumstances so warrant, taking into account changes in the regulatory and operating environments.

## Risk governance

Risk governance is the organisational structure that has been institutionalised for maintaining a high standard of governance. It comprises the committees, rules, processes and mechanisms by which decisions relating to risk are taken and implemented for the management and oversight of risk within the risk appetite and the risk tolerance levels, and for institutionalising a strong risk culture. Risk governance enables the Management to undertake risk taking activities more prudently.

The Three Lines of Defence model enable the Bank to inculcate an effective risk culture with accountability at each level. The Board of Directors has established a robust governance structure by leveraging the best practice in corporate governance to risk management. It comprises Board committees, executive functions, and executive committees with required delegated authority, facilitating accountability for risk at all levels and across all risk types of the Bank, and enabling a disciplined approach to managing risk.

The organisation of the Bank's risk governance is given in Figure 27 on page 210. Since it is highly specialised and also ensures an integrated and consistent approach, decision-making on risk management is centralised to a greater extent in several risk management committees.

Figure – 26: **Three lines of defence**

**1st Line of Defence**
**Business lines/Corporate functions**

- Owns and manages associated risks
- Evaluates risk using informed judgment
- Ensures that risks accepted are within the Bank's risk appetite and risk management policies
- Comprises a robust system of internal controls and an organisation culture of risk awareness which is nurtured with regular training

**Line Management/Business Units**

**2nd Line of Defence**
**Risk management and control**

- Independently monitors effective implementation of risk management framework
- Facilitates high levels of risk awareness throughout the organisation
- Maintains a sound risk management policy framework
- Carries out measurement, monitoring and reporting to the Management and Board Integrated Risk Management Committee
- Objectively challenges First Line of Defence

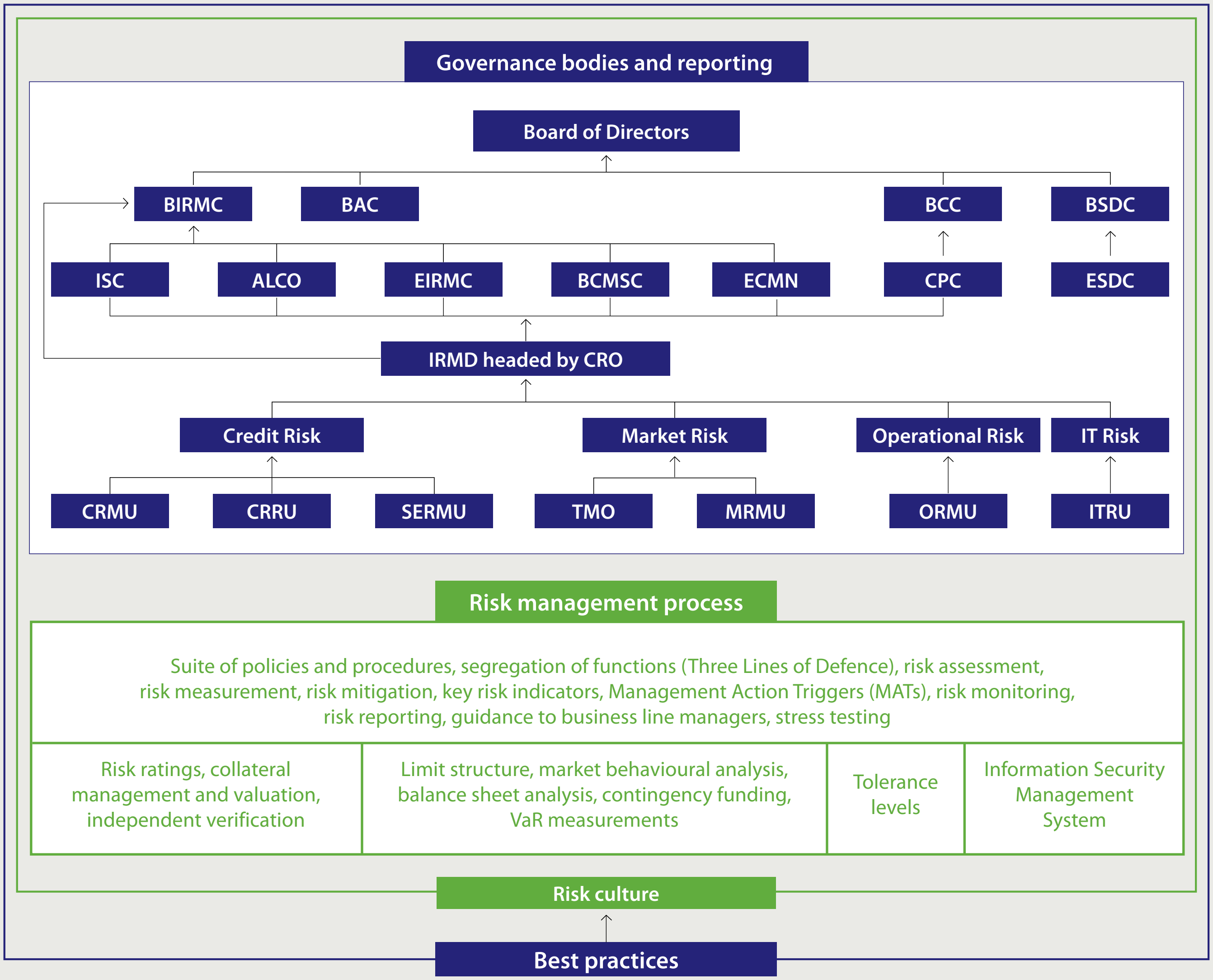
**Risk/Compliance Departments**

**3rd Line of Defence**
**Assurance**

- Comprises internal audit, external audit and regulatory reviews providing independent assurance to the Board over the First and Second Lines of Defence
- Facilitates high standards of governance and control systems
- Carries out timely reporting of findings to the Management and the Board Audit Committee

**Inspection/Audit**

Figure – 27: **Risk Governance Structure**




*BAC – Board Audit Committee, BIRMC – Board Integrated Risk Management Committee, BCC – Board Credit Committee, BSDC – Board Strategy Development Committee, ISC – Information Security Council, ALCO – Asset and Liability Committee, EIRMC – Executive Integrated Risk Management Committee, BCMSC – Business Continuity Management Steering Committee, ECMN – Executive Committee on Monitoring NPCF, CPC – Credit Policy Committee, ESDC – Executive Strategy Development Committee, IRMD – Integrated Risk Management Department, CRMU – Credit Risk Management Unit, CRRU – Credit Risk Review Unit, SERMU – Social and Environmental Risk Management Unit, TMO – Treasury Middle Office, MRMU – Market Risk Management Unit, ORMU – Operational Risk Management Unit, ITRU – IT Risk Management Unit*

## Board of Directors

The Board of Directors is the apex governance body that is responsible for strategy and policy formulation, objective setting and providing oversight to the executive functions. It has the overall responsibility for overseeing the risks assumed by the Bank and the Group, and for ensuring they are appropriately identified and managed (Refer pages 138 to 145 for the profiles of the members of the Board of Directors). Accordingly, the Board determines the risk appetite of the Bank which is a balance between achieving its strategic goals and the risk level assumed to achieve the same. The Board has delegated oversight responsibility to Board committees, a list of which is given on page 158. These Board committees are supported by executive-level committees working closely with the executive functions to review and assess the effectiveness of the risk management function and report to the Board on a regular basis. These reports provide a comprehensive perspective of the Bank's risk profile and risk management actions and outcomes, enabling the Board to identify the risk exposures, and any potential gaps and take the necessary mitigating actions on a timely basis. The Board continuously guides the executive management in aligning the business strategies and objectives with desired risk levels. The tone at the top and the corporate culture reinforced by the ethical and effective leadership of the Board plays a key role in managing risk at the Bank.

In addition to the Three Lines of Defence model and the tone at the top, the Bank's commitment to conduct its business in an ethical manner plays a significant role in managing risk in the Bank. The Bank's unwavering commitment and expectations of all the employees to undertake business in a responsible, transparent, and disciplined manner are set out in a number of related documents including the Code of Ethics, Gift Policy, Communication Policy, Credit Policy, the Anti-Bribery and Anti-Corruption Policy, and Conduct Risk Management Policy Framework which demand the highest level of honesty, integrity and accountability from all employees.

Given the potential for financial losses and reputational risk and as required by regulatory authorities, the Board of Directors closely monitors the risk profile of all the subsidiaries in the Group apart from that of the Bank (Refer page 122 for the list of subsidiaries).

### Board committees

The Board has set up the following four Board committees to assist in discharging its oversight responsibilities for risk management and for ensuring the adequacy and effectiveness of internal control systems.

- Board Audit Committee (BAC)
- Board Integrated Risk Management Committee (BIRMC)
- Board Credit Committee (BCC)
- Board Strategy Development Committee (BSDC)

Each sub-committee has its Terms of Reference (ToR) and conducts meetings at pre-determined frequencies and as and when circumstances require.

These committees through their deliberations, review and make recommendations to the Board on risk appetite, risk profile, strategy, risk management and internal controls framework, risk policies, limits, and delegated authority.

Details relating to composition, Terms of Reference, authority, meetings held and attendance, activities undertaken during the year, etc. of each of these Board committees are given in the respective sub-committee reports on pages 168 to 187.

### Executive Committees

Executive management is responsible for the execution of strategies and plans in accordance with the mandate assigned to each such committee by the Board of Directors while maintaining the risk profile within the approved risk appetite. Executive Integrated Risk Management Committee (EIRMC) comprises members from units responsible for credit risk, market risk, liquidity risk, operational risk, and IT risk. Spearheaded by the EIRMC, the following committees have been set up on specific aspects of risk to facilitate risk management across the First and the Second Lines of Defence.

- Asset and Liability Committee (ALCO)
- Credit Policy Committee (CPC)
- Executive Committee on Monitoring Non-Performing Credit Facilities (ECMN)
- Information Security Council (ISC)
- Business Continuity Management Steering Committee (BCMSC)

EIRMC coordinates communication with the BIRMC to ensure that the risk management activities are conducted in accordance with the Integrated Risk Management Framework and the risk is managed within the stipulated risk parameters. In addition, the Chief Risk Officer reports directly to the BIRMC ensuring the independence of the risk management function. Details relating to the composition of the executive committees are given in the section on "Annual Corporate Governance Report" on pages 154 and 167.

The Chief Risk Officer, who heads the IRMD participates in the executive committees listed above as well as in BIRMC, BCC and BAC meetings. It is the responsibility of the IRMD to independently monitor compliance of the First Line of Defence to the laid down policies, procedures, guidelines, and limits and escalate deviations to the relevant executive committees. It also provides the perspective on all types of risk for the above committees to carry out independent risk evaluations and share their findings with the Line Managers and the Senior Management enabling effective communication of material issues, and initiating deliberations and necessary action.

### Risk management

Risk management is the functional responsibility for identifying, assessing, controlling and mitigating risks, as well as determining risk mitigation strategies, monitoring early warning signals (EWS), estimating potential future losses and putting measures in place to contain losses/ risk transfer. The risk management framework (Figure 28) facilitates the formulation and implementation of risk management strategies, policies and procedures, while taking into account the strategic focus as defined in the Bank's Corporate Plan and the risk appetite.

The Bank has made significant investments to develop and maintain the infrastructure required in terms of both human and physical resources to strengthen the detection and management of risks, including mandates, policies & procedures, limits, software, databases, expertise, communication, etc. and to adopt international best practices. Since risk management is the responsibility of every employee of the Bank, they need to have a clear understanding of the risks the Bank is faced with, IRMD provides ongoing training and awareness to the employees, risk owners in particular, disseminating knowledge and enhancing their skills on all aspects related to risk, instilling the desired risk culture.

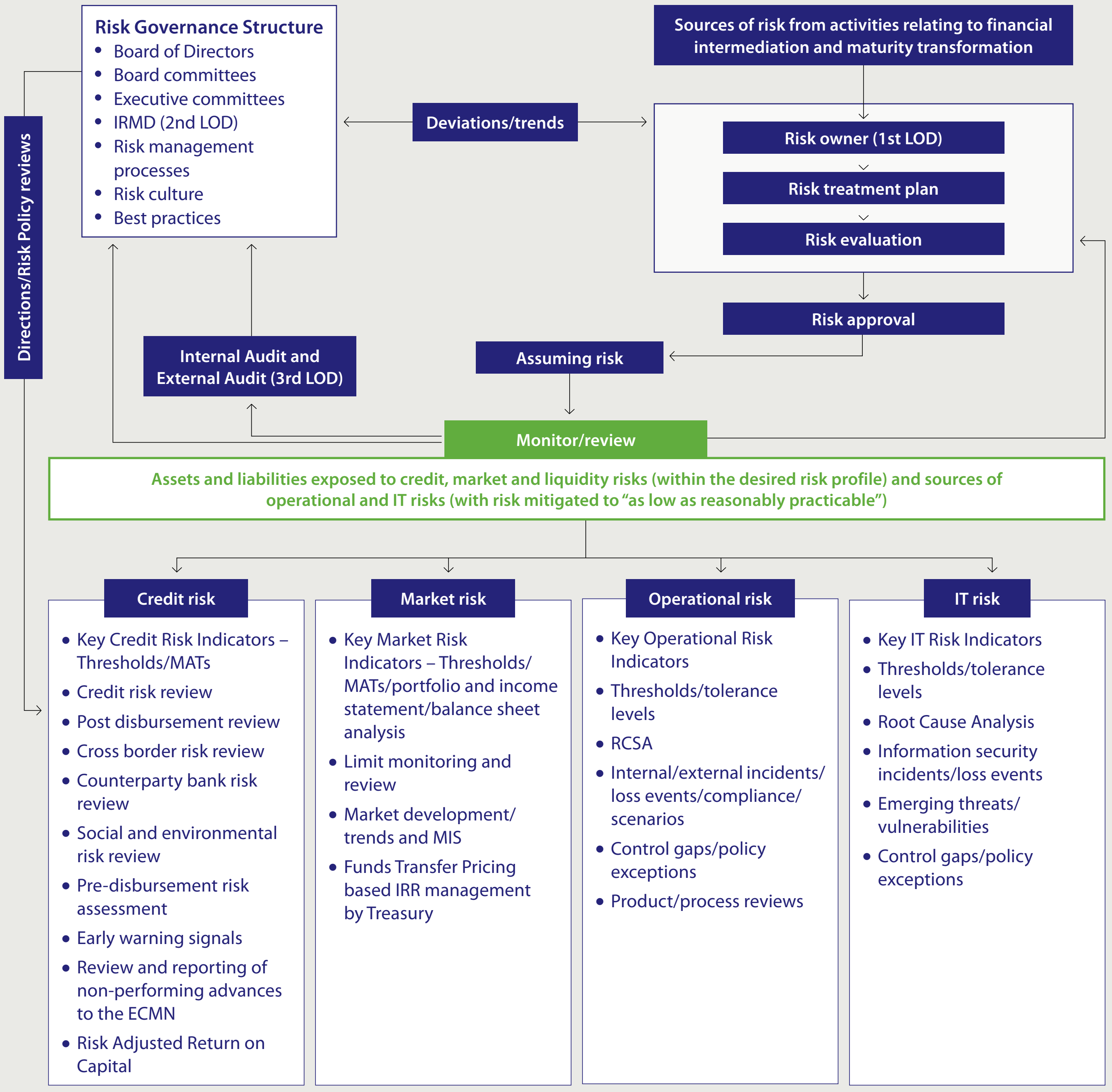
### Policies, procedures, and limits

The Bank has a set of comprehensive risk management policies that cover all the risks it manages to provide guidance to the business and support units on risk management and to ensure regulatory compliance including the Banking Act Direction No. 07 of 2011 – Integrated Risk Management Framework for Licensed Commercial Banks based on the Basel Framework, and subsequent CBSL directives. This helps to reduce prejudice and subjectivity in risk decisions by institutionalising the risk knowledge base. These key documents establish the Bank's risk culture by defining its objectives, priorities and processes as well as the role of the Board of Directors and the Management in risk management. The Risk Assessment Statement (RAS) sets out the risk limits and forms an integral part of the risk management framework. The BIRMC and the Board of Directors review the RAS at least once a year, if not more frequently, based on regulatory and business needs.

The Bank has considered the regulatory needs of the countries in which it operates. The Bank's overall risk exposure, including its international operations, is within the CBSL's regulatory framework.

The Bank has issued comprehensive operational guidelines to facilitate the implementation of the Risk Management Policy and the limits specified in the RAS. These guidelines detail the types of facilities, processes, and terms and conditions under which the Bank conducts business, providing staff clarity to their daily tasks.

Figure – 28: **Risk Management Framework**




## Risk management tools

The Bank uses a combination of qualitative and quantitative tools to identify, measure, manage, and report risks. The selection of the appropriate tool(s) for managing a particular risk is based on the likelihood of occurrence and the potential impact of the risk as well as the availability of data. These tools include EWS, threat analysis, risk policies, risk registers, risk maps, risk dashboards, RCSA, ICAAP, diversification, covenants, SEMS, workflow-based operational risk management system, insurance, benchmarking to limits, gap analysis, NPV analysis, swaps, caps and floors, hedging, risk rating, risk scoring, risk modelling, duration, scenario analysis, marking to market, stress testing, and VaR analysis etc.

Figure – 29: **Summary of key risks**

**External**

| | Economic performance and trade cycles (Decreasing) | Cyber threats (Increasing) | Increased regulations (Increasing) | Stability of fiscal and monetary policy (Decreasing) | Other emerging risks (Increasing) |
|---|---|---|---|---|---|
| Mitigation | Guiding business strategy and resource allocation communicated to business lines | Specialised teams within the risk management function (in addition to the First Line of Defence) and continued investments in enhancing cyber security | A dedicated compliance function and an independent internal audit function facilitate compliance | Close monitoring of trends for possible ramifications on the economy and business strategy which could impact asset quality and profitability | Offering unparalleled and unprecedented convenience by adopting the latest banking technology |
| Our objective | Safeguard stable funding sources, asset quality and returns | Safeguard information and ensure business continuity | Dynamic approach to comply with regulations | | To satisfy the rising expectations of stakeholders and to be future ready |

**BANK**

**Internal**

| | Credit risk (Increasing) | People and operational risk (Increasing) | Market risk (Decreasing) | Model risk (Increasing) | Liquidity risk (Increasing) |
|---|---|---|---|---|---|
| Our objective | Safeguard the asset quality and reduce exposures to high risk segments | Creating an environment that enables performance while safeguarding the business | Safeguard against adverse movement of market factors arising from price sensitivities of funding sources, investments, lending or trading portfolios | Develop predictive capability to support the decision making process | Safeguard against funding constraints that prevent growth and meet demands of depositors/investors |
| Mitigation | Robust and rigorous risk assessment and pricing of loans in line with risk appetite and collateral support | Succession plans, code of conduct and business ethics, competency, policy frameworks, segregation of duties and internal controls | Monitoring, predicting and controlling through stringent limits and Management Action Triggers | Assumptions based models and behavioural testing through internal/ external independent validation | Retention and growth of a stable deposit base and tapping low cost funding sources locally and overseas, act as a buffer in addition to sound maintenance of the liquid asset portfolio to support contingencies |

Increasing trend in risk   Decreasing trend in risk   No significant change

## Types of risks

The Bank is exposed to a multitude of financial and non-financial risks, which can be broadly categorised into credit, market, liquidity, operational, reputational, IT, strategic, social & environmental and legal risks. All of these risks taken together determine the risk profile of the Bank which is monitored periodically against the risk appetite referred to earlier. The robust risk management framework in place enables the Bank to manage these risks prudently.

Nevertheless, banks are not entirely immune to the significant levels of uncertainty arising from various external developments, as well as internal factors that will continue to affect their risk profiles on an ongoing basis.

External developments may include;

- The outbreak of pandemics
- Movements in macroeconomic variables
- Fragile supply chains
- Sovereign risk destabilising financial markets
- Political instability
- Demographic changes
- Changes in Government fiscal and monetary policies
- Technological advances
- Regulatory developments
- Mounting stakeholder pressures
- Competitor activities
- Unsubstantiated information being circulated on social media
- A decline in property market valuations giving rise to higher losses on defaulting loans
- Unfounded public perceptions that banks are exploiting customers
- Distressed businesses and individuals
- Downgrading of ratings of the banks and
- Growing sustainability concerns

Besides limiting the physical movements of people and global trade, such developments could impact public perceptions, disposable income of people, demand for banking products and services, funding mix, interest margins, and tax liabilities of the Bank.

Internal factors may include;

- Knowledge and skill gaps among staff members
- Lapses in internal administration
- Deterioration of internal sub-cultures
- Deliberate acts of fraud, cheating, and misappropriation etc.
- Arbitrary decision making
- Inaccurate/insufficient risk reporting
- Inadequacies/misalignments of digitisation
- Strategic misalignments
- Lapses in implementing the risk management framework
- Improper alignment of remuneration to performance and risk
- Incorrect advice offered to customers
- Inaccurate predictions of macroeconomic variables
- Execution gaps in internal processes
- Lack of industrial harmony
- Critical accounting judgments and estimates turning to be inaccurate
- Lack of robust data infrastructure adversely affecting business and operational decisions and
- Subsidiaries and associates not performing up to the expectations of the Bank.

These factors, if not properly managed, may affect the risk profile of the Bank as well as cause reputational damage, hampering the objective of sustainable value creation for all its stakeholders.

Furthermore, the operating environment has become much more complex and unpredictable due to some potentially disruptive emerging threats and uncertainties, resulting in some of the long-standing assumptions about markets, competition, and even business fundamentals being less true today. These concerns call for the Bank to better understand its stakeholders and meet their expectations with excellence in the execution of internal processes. The Bank deals with these developments through appropriate strategic responses, believing that they would provide opportunities to differentiate the Bank's value proposition for future growth. A summary of key risks is given in Figure 29 on page 213.

These developments are making the operating environment more complex, dynamic, and competitive day by day and risk management is very challenging on an ongoing basis. Effective management of these risks with a congruent approach to face uncertainties is nevertheless a sine qua non to the implementation of the Bank's strategy for value creation for all its stakeholders. Consequently, deliberations on risk management were on top of the agenda in all Board, Board Committee, and Executive Committee meetings of the Bank.

A description of the different types of risks managed by the risk management function of the Bank and the risk mitigation measures adopted are given below.

## Credit risk

Credit risk refers to the potential loss arising from a borrower or a counterparty failing to meet obligations in accordance with agreed terms. The Bank is exposed to credit risk through direct lending activities as well as commitments, and contingencies . Credit risk depends on various factors such as the quality of the lending portfolio, concentration levels, ratings of counterparties with cross-border exposures, and sovereign ratings in relation to exposures to the Government. The COVID-19 pandemic, unprecedented market and supply disruptions and certain subsequent socio economic and political developments have triggered some implications, such as masked credit risk and elevation of the risks of most sectors. This has required the Bank to explore new approaches for managing and mitigating credit risk, whilst carrying out existing risk management and mitigation processes in a more granular and stringent manner.

The Bank's total credit risk is made up of counterparty risk, concentration risk, and settlement risk.

Table – 51: **Maximum credit risk exposure**

| | As of December 31, 2022 | |
|---|---|---|
| | Rs. Bn. | % |
| **Net carrying amount of credit exposure:** | | |
| Cash and cash equivalents | 149.394 | 5.4 |
| Placements with central banks and other banks (excluding reserves) | 95. 900 | 3.5 |
| Financial assets at amortised cost – Loans and advances to Banks | | |
| Financial assets at amortised cost – Loans and advances to Other Customers | 1,130.442 | 40.9 |
| Financial assets at amortised cost – Debt and Other financial instruments | 725.935 | 26.2 |
| Financial assets measured at fair value through other comprehensive income | 117.056 | 4.2 |
| **Total (a)** | 2,218.727 | |
| **Off-balance sheet maximum exposure:** | | |
| Lending commitments | 132.065 | 4.8 |
| Contingencies | 415.235 | 15.0 |
| **Total (b)** | 547.300 | |
| **Total of maximum credit exposure (a + b)** | 2,766.027 | 100.0 |
| Gross carrying amount of loans and advances to Other Customers | 1,219.667 | |
| Stage 3 (credit impaired) loans and advances to Other Customers | 114.739 | |
| Impaired loans as a % of gross loans and advances to Other Customers | | 9.4 |
| Allowance for impairment – loans and advances to Other Customers | 89.225 | |
| Allowance for impairment as a % of gross loans and advances to Other Customers | | 7.3 |
| Impairment charge – loans and advances to Other Customers | 21.962 | |

Amid the COVID-19 pandemic related environmental challenges, the maximum credit exposure of the Bank has increased from Rs. 2,492.4 Bn. (as of end December 2021) to Rs. 2,766.0 Bn. (as of end December 2022).

During the year, owing to the aforementioned aggravated risks and new risks, the financial services industry experienced an increasing trend in loans and advances to other customers being classified as NPCF. This resulted in the credit-impaired (Stage 3) loans to customers of the Bank to increase to Rs.114.739 Bn. (Rs. 79.076 Bn. in 2021), which is 9.4% (7.3% in 2021) of the gross loans and advances to other customers. The Bank has provided a cumulative impairment allowance of Rs. 89.225 Bn. on the loans and advances portfolio as of December 31, 2022 (Rs. 64.066 Bn. as at December 31, 2021) as per the requirements of SLFRS 9. Furthermore, sovereign rating downgrade and the ongoing debt restructuring program of Sri Lanka necessitated classification of the Bank's exposure to USD-denominated Government Securities to Stage 2 and substantial impairment provisions being made as at end December 2022. Accordingly, the Bank provided 35% and 10% of the Bank's exposure to Sri Lanka Sovereign Bonds and Sri Lanka Development Bonds, respectively.

## Managing credit risk

The lending portfolio accounts for 46% of total assets and credit risk accounts for over 90% of the total risk-weighted assets. Hence, managing credit risk prudently is of critical importance to the Bank's sustainability. The Bank endeavoured to manage credit risk going beyond mere regulatory compliance. It is managed through the Board approved credit risk management framework comprising a robust risk governance structure and a comprehensive suite of risk management processes, which, among others include policies and procedures, risk ratings, risk review mechanism, collateral management and valuation, segregation of credit risk management functions, social and environmental risk management, independent verification of risk assessments, credit risk monitoring, post disbursement review, providing direction to business line managers, dissemination of credit risk related knowledge, and sharing information with internal audit.

During the year, the EIRMC/BIRMC were extra vigilant in their efforts on managing credit risk owing to the exacerbation of perennial risks and emergence of new risks. Accordingly, a close monitoring mechanism was in place on the exposures to high-risk segments under 3 categories – Watchlist, High-risk list, and Exit list, both in Sri Lanka and Bangladesh operations. The top 5 Stage 3 customers under each of the sub sectors coming under the three segments listed above were closely monitored. Furthermore, based on insights from EWS, the movement of exposures and the number of customers falling under EWS High, Medium, and Low-Risk categories were closely monitored. A well-designed process was deployed involving Lending Officers and IRMD for continuous monitoring of stressed lending assets highlighted through EWS.

The Bank also paid special attention to the exposures to REIs during the year under review and monitored the Expected Credit Loss (ECL) for individually impaired and collectively impaired facilities – against the underlying exposures for individually impaired and collectively impaired facilities in both Stage 2 and Stage 3. Tourism-related and other exposures were continued to be analysed and monitored separately. The top 10 borrowers under each of the REIs in Stage 2 and Stage 3 were closely monitored whilst exposures to the Government in terms of commercial lending, as well as against treasury guarantees, were closely monitored along with the collateral concentration of advances.

The Bank has the following internal limits:

- Open credit exposure
- Aggregate credit exposures to corporate borrowers owned and controlled by a single common shareholder or stakeholder
- Related party exposure
- Economic group exposure ratio
- Cross border exposures

Post disbursement credit review of Loans & Overdrafts is carried out as per the "Credit Risk Review Policy". The scope of coverage of these reviews was determined in accordance with the provisions of the Credit Policy, Lending Guidelines, and the Credit Risk Review Policy. On completion of the review, the observations were submitted to the lending officers and their responses were reviewed. In addition to the existing reviews, the Bank paid special attention to the lending units/regions demonstrated heightened stress levels in terms of substandard lending. Granular analyses on these units were escalated to the Executive Committees for timely actions.

The credit health checks of branches and other lending units are carried out based on the credit evaluation process, behaviour of accounts, risk rating, compliance with guidelines, post-sanction compliance, concentration levels in the Loan Book, recovery, follow-up of NPCF, regular problematic advances, credit process, and the reporting system.

## Review of credit risk

The challenging operating environment following the Easter Sunday attack further deteriorated due to the COVID-19 pandemic-related lockdowns, economic hardships undergone by the country travel restrictions, supply chain disruptions, and import restrictions continued throughout the year under review and heightened stress levels among individuals and businesses. Concerns fuelled by foreign currency liquidity shortages exerted pressure on the business entities. However, certain proactive measures taken by the Government such as the effective vaccination drive, reasonable political stability, and efforts to boost FDIs and revive tourism helped the country sustain economic activities at a reasonable level. Demonstrating its resilience, the Bank managed to gradually weather the effects of the pandemic and make progress. Continuous follow-up of advances that were subjected to moratoria, recovery initiatives such as offering incentives and heightened scrutiny in loan appraisals elevated levels of attention given to loan approvals, rationalisation of credit exposures with deep analyses, and post-sanction monitoring and recovery efforts together with the planned implementation of early identification of stressed borrowers through EWS will assist the Bank to gradually improve credit quality in 2023 and minimise potential credit risk. The Bank took extra caution in new credit exposure creation as well as in managing existing credit exposures, given the increased social stress amid the country's economic condition.

In addition to the effective credit risk management framework referred to above that guides the Bank when on-boarding new exposure and monitoring existing exposure which makes an enormous contribution to maintaining the quality of the loan book, the Bank is vigilant and exercises caution when choosing customers, products, industries, segments, and geographies it serves. Continuous monitoring of age analysis and the underlying movement of overdue loans through arrears buckets enabled the Bank to swiftly take action, thereby moderating default risk during the year.

## Concentration risk

The Bank manages concentration risk by strategically diversifying the business across industry sectors, products, counterparties, and geographies. The Bank's RAS defines the limits for these segments and ensures compliance, whilst the Board, BIRMC, EIRMC, and the CPC monitor these exposures. They also make suggestions and recommendations on modifications to defined limits based on the trends and developments shaping the business environment.

Graph 44 depicts the tenure-wise breakdown of the portfolio of total loans and advances to other customers within the risk appetite of the Bank.

The distribution of Stage 3 credit-impaired loans and advances to other customers in terms of identified industry sectors at the year-end is given in Table 52 on page 217.

Graph – 44: **Tenure-wise loans and advances to other customers as at December 31, 2022 (based on residual maturity)**

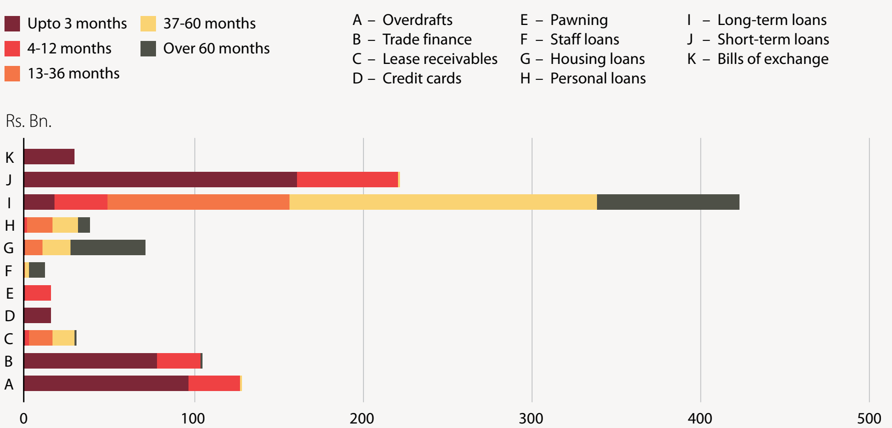
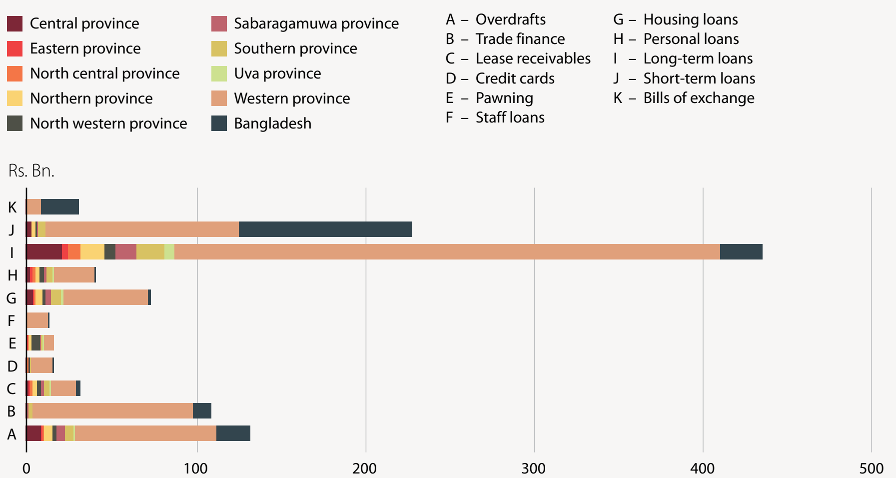


Table – 52: **Distribution of Stage 3 credit impaired loans and advances to other customers as of December 31, 2022**

| Industry category | Stage 3 loans and advances Rs. '000 | Allowance for individual impairment Rs. '000 | Allowance for collective impairment Rs. '000 | ECL allowance Rs. '000 | Amount written-off Rs. '000 |
|---|---|---|---|---|---|
| Agriculture, forestry, and fishing | 11,949,935 | 2,266,138 | 2,367,404 | 4,633,542 | 24,901 |
| Arts, entertainment, and recreation | 124,782 | – | 41,691 | 41,691 | 54 |
| Construction | 8,034,938 | 3,951,605 | 1,065,638 | 5,017,243 | 6,988 |
| Consumption and others | 7,303,608 | 44,389 | 2,594,245 | 2,638,634 | 692 |
| Education | 324,818 | – | 104,527 | 104,527 | 102 |
| Financial services | 1,135,683 | 770,753 | 139,152 | 909,905 | – |
| Healthcare, social services, and support services | 1,299,652 | 106,977 | 380,440 | 487,417 | – |
| Information technology and communication services | 707,779 | – | 256,215 | 256,215 | 922 |
| Infrastructure development | 2,273,404 | 1,053,454 | 296,362 | 1,349,816 | 834 |
| Lending to overseas entities | 8,314,558 | 393,234 | 456,199 | 849,433 | – |
| Manufacturing | 19,245,186 | 5,153,287 | 2,869,661 | 8,022,948 | 2,568 |
| Professional, scientific, and technical activities | 718,840 | – | 230,598 | 230,598 | – |
| Tourism | 20,742,718 | 5,859,811 | 1,934,170 | 7,793,981 | 1,715 |
| Transportation and storage | 3,586,462 | 1,844,307 | 293,563 | 2,137,870 | 1,435 |
| Wholesale and retail trade | 28,976,492 | 6,783,806 | 5,119,775 | 11,903,581 | 15,996 |
| **Total** | **114,738,855** | **28,227,761** | **18,149,640** | **46,377,401** | **56,207** |

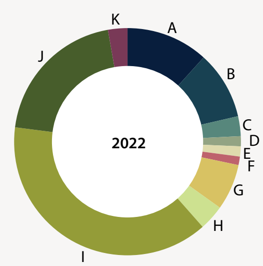
Graph – 45: **Product-wise geographical analysis of loans and advances to other customers as at December 31, 2022**




Given the facts that economic activities are centered around the Western Province and corporates' registered offices are located therein, the Loan Book is highly concentrated in this province (Graph 45).

An analysis of the Bank's lending portfolio by product (Graph 46) also reveals that the efficacy of the Bank's credit policies is effective and the risk being diversified across a range of credit products.

Graph – 46: **Product-wise analysis of loans and advances to other customers as at December 31, 2022**




| | | % |
|---|---|---|
| A | Overdrafts | 12 |
| B | Trade finance | 10 |
| C | Lease receivables | 3 |
| D | Credit cards | 1 |
| E | Pawning | 1 |
| F | Staff loans | 1 |
| G | Housing loans | 7 |
| H | Personal loans | 4 |
| I | Long-term loans | 39 |
| J | Short-term loans | 20 |
| K | Bills of exchange | 2 |

The relatively high exposure of 39% to long-term loans is rigorously monitored and mitigated with collateral.

## Counterparty risk

The Bank manages counterparty risk through the established policies/procedures and limit structures including single borrower limits and group exposure limits for different products etc. The Bank has set limits far more stringent than those stipulated by the regulator, providing a greater flexibility in managing concentration levels with regard to the counterparty exposures.

Loans and receivables to the Bank, both from local and foreign counterparties contribute mainly to the counterparty risk. The Bank monitors the exposures against the established product limits at frequent intervals. A specific set of policies, procedures, and a limit structure are in place to monitor it. Whilst market information on the financial/economic performance of these counterparties is subject to rigorous scrutiny throughout the year, the counterparty bank exposures are monitored against the established prudent limits at frequent intervals and the limits are revised to reflect the latest information, where deemed necessary.

The analysis uses ratings provided by Fitch Ratings for local banks in Sri Lanka and Credit Ratings Agency in Bangladesh (CRAB) for local banks in Bangladesh (Equivalent CRISL/Alpha ratings are used where CRAB ratings are not available). Exposures for local banks in Sri Lanka rated AAA to A category stood at 88% (Graph 47) whilst 100% of exposure of the local banks in Bangladesh consisted of AAA to AA rated counterparty banks (Graph 48).

Graph – 48: **The concentration of counterparty bank exposures in Bangladesh as at December 31, 2022 (CRAB ratings-wise*)**


| | | % |
|---|---|---|
| A | AAA to AA | **100** |
| B | BBB to B | **0** |

** Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable.*

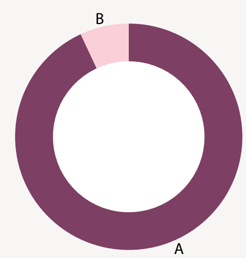
## Cross-border risk

This denotes the risk that the Bank will be unable to secure payments from its customers or third parties on their contractual obligations due to certain actions taken by foreign governments, mainly relating to the convertibility and transferability of foreign currency. Assets exposed to cross-border risk comprise loans and advances, interest-bearing deposits with other banks, trade and other bills, and acceptances and those predominantly relating to short-term money market activities.

To minimise the risk arising from over-concentration in cross-border exposures, the Bank has set limit structures, continuously monitors macroeconomic and market developments of the countries with exposure to counterparties, and conducts a stringent evaluation of counterparties while maintaining frequent dialogue with them. Timely action is taken to suspend/revise limits to countries with adverse economic/political developments.

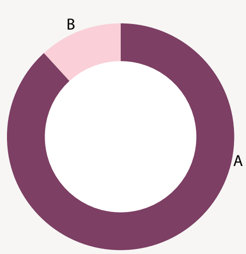
The Bank limits its total cross-border exposure to 8% of its total assets (Graph 49). The Bank has cross-border exposures to a range of countries which primarily include the Singapore, Maldives, UK, UAE, India, USA, etc. 93% of the cross-border exposures relating to Sri Lankan and Bangladesh operations are to AAA to BBB- countries while 7% are to below BBB- and unrated countries. (Graph 50).

Graph – 50: **The Concentration of Cross-border Exposure (Sri Lanka and Bangladesh Operations) – S&P Rating wise as at December 31, 2022**



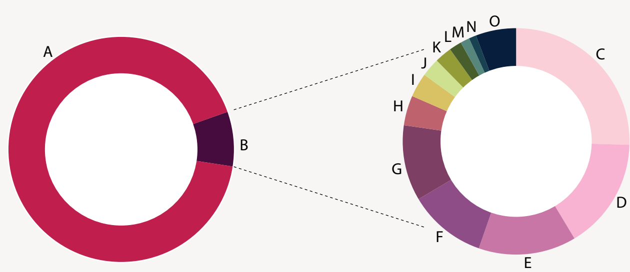

| | | % |
|---|---|---|
| A | AAA to BBB- | **93** |
| B | Below BBB- and Unrated | **7** |

Graph – 47: **The concentration of counterparty bank exposures in Sri Lanka as at December 31, 2022 (Fitch ratings-wise)**




| | | % |
|---|---|---|
| A | AAA to A | **88** |
| B | BBB to B | **12** |

Graph – 49: **Cross-border Exposure of the Bank** (Sri Lankan and Bangladesh Operations)




| | | % |
|---|---|---|
| A | Other assets | 92 |
| B | Cross-border assets | 8 |

| | | % |
|---|---|---|
| C | Singapore | 26 |
| D | Maldives | 16 |
| E | UK | 14 |
| F | UAE | 11 |
| G | India | 11 |
| H | USA | 4 |
| I | Denmark | 3 |
| J | Kenya | 3 |
| K | Malaysia | 2 |
| L | China | 2 |
| M | Indonesia | 1 |
| N | Mexico | 1 |
| O | Others | 6 |

** Equal CRISL/Alpha ratings are given where CRAB ratings are unavailable.*

## Market risk

Market risk is the risk that a bank's financial position may be negatively impacted by fluctuations in financial market conditions such as changes in interest rates, exchange rates, commodity prices, equity/debt prices and their correlations against the expectations the Bank had at the time of making decisions. Market risk arises from the Bank's trading activities, investments in financial instruments, and exposure to volatile financial markets. The Bank's operations are exposed to these variables and correlations in varying magnitudes. Market risk includes interest rate risk, liquidity risk, foreign currency risk and equity risk.

Table – 53: **Market risk categories**

| Major market risk category | Risk components | Description | Tools to monitor | Severity | Impact | Exposure |
|---|---|---|---|---|---|---|
| Interest rate | | Risk of loss arising from movements or volatility in interest rates | | | | |
| | Re-pricing | Differences in amounts of interest-earning assets and interest-bearing liabilities getting re-priced at the same time or due to timing differences in the fixed rate maturities, and appropriately re-pricing of floating rate assets, liabilities, and off-balance sheet instruments | Re-pricing gap limits and interest rate sensitivity limits | High | Medium | Medium |
| | Yield curve | Unanticipated changes in shape and the gradient of the yield curve | Rate shocks and reports | High | High | High |
| | Basis | Differences in the relative movements of rate indices which are used for pricing instruments with similar characteristics | Rate shocks and reports | High | Medium | Medium |
| Foreign exchange | | Possible impact on earnings or capital arising from movements in exchange rates arising out of maturity mismatches in foreign currency positions other than those denominated in base currency, Sri Lankan Rupee (LKR) | Risk tolerance limits for individual currency exposures as well as aggregate exposures within regulatory limits for NOP | High | Medium | Medium |
| Equity | | Possible losses arising from changes in prices and volatilities of individual equities | Mark-to-market calculations are carried out daily for Fair Value Through Profit and Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI) portfolios | Low | Low | Negligible |
| Commodity | | Exposures to changes in prices and volatilities of individual commodities | Mark to market calculations | Low | Low | Negligible |

## Managing market risk

Market risk is managed through the market risk management framework approved by the Board, comprising a robust risk governance structure and a comprehensive suite of risk management processes which include policies, market risk limits, Management Action Triggers (MATs), risk monitoring, and risk assessment.

The impact on the Bank's Net Interest Income (NII) was assessed in a stress situation for a period of 12 months from a given point in time based on a change of 100 – 400 bps on LKR and 25 – 100 bps on FCY. The Bank also adopts the Economic Value of Equity (EVE) which is a long-term measure of IRR that analyses the value of the Bank in present market conditions and the sensitivity of that value to changes in market rates. Moreover, the repricing gap of Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) was analysed.

The Bank monitored the change in Net Interest Margin (NIM) month on month, for both LKR and FCY for Sri Lanka and Bangladesh operations. Additionally, the FX position gain/loss in a stress situation was assessed with 1% up/down in exchange rate between USD and LKR rates. Furthermore, the Mark To Market (MTM) gains/losses impact was assessed if interest rates change by 1% up/down and 2% up/down on the FVTPL portfolio of LKR Government securities. The same was done on the FVTOCI portfolio as well.

The Bank monitored opportunity loss of the amortised cost portfolio and the FCY cashflow for the next three months on an ongoing basis. The FCY liquidity gap summary was prepared which includes the funding liquidity against undrawn OD limits and the next 3 months projected loan disbursements. The Bank also prepares the funding concentration in terms of tenor and values, top 20 depositors, and based on currency as well.

## Review of market risk

Market risk arises mainly from the Non-Trading Portfolio (Banking Book) which accounted for 91.16% of the total assets and 93.09% of the total liabilities as of December 31, 2022. Exposure to market risk arises mainly from IRR and FX risk as the Bank has negligible exposure to commodity-related price risk and equity and debt price risk which was less than 12% of the total risk-weighted exposure for market risk.

The Bank's exposure to market risk analysed by Trading Book and Non-Trading Portfolios (or Banking Book) is set out in the Note 66.3.1 on page 381.

## Market risk portfolio analysis

The gap report is prepared by stratifying RSA and RSL into various time bands according to maturity (if they are fixed rated) or time remaining to their next re-pricing (if they are floating rated). Balances of savings deposits are distributed in line with the findings of a behavioural analysis conducted by the Bank and based on the guidelines of the CBSL on overdrafts and credit cards. The vulnerability of the Bank to interest rate volatility is indicated by the gap between RSA and RSL (Refer Table 54).

## Interest rate risk (IRR)

Extreme movements in interest rates expose the Bank to fluctuations in NII and have the potential to impact the underlying value of interest-earning assets, interest-bearing liabilities, and off-balance sheet items. The main types of IRR to which the Bank is exposed are re-pricing risk, yield curve risk, and basis risk.

## Sensitivity of projected NII

Regular stress tests are carried out on Interest Rate Risk in Banking Book (IRRBB) encompassing changing positions and new economic variables together with systemic and specific stress scenarios. Change in the value of the Fixed Income Securities (FIS) portfolio in FVTPL and FVOCI categories due to abnormal market movements is measured using both EVE and Earnings At Risk (EAR) perspectives. Results of stress tests on IRR are analysed to identify the impact of such scenarios on the Bank's profitability and capital.

Impact on NII due to rate shocks on LKR and FCY is continuously monitored to ascertain the Bank's vulnerability to sudden interest rate movements (Refer Table 55).

Table – 55: **Sensitivity of NII to rate shocks**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Parallel increase Rs. '000 | Parallel decrease Rs. '000 | Parallel increase Rs. '000 | Parallel decrease Rs. '000 |
| As at December 31, | 392,200 | (392,737) | 195,232 | (195,288) |
| Average for the year | 369,472 | (369,892) | 258,265 | (200,260) |
| Maximum for the year | 813,181 | (813,616) | 655,218 | (655,219) |
| Minimum for the year | 19,531 | (20,281) | (87,864) | 245,713 |

Table – 54: **Interest rate sensitivity gap analysis of assets and liabilities of the Banking Book as of December 31, 2022 – Bank**

| Description | 0-90 Days Rs. '000 | 3-12 Months Rs. '000 | 1-3 Years Rs. '000 | 3-5 Years Rs. '000 | Over 5 years Rs. '000 | Non-sensitive Rs. '000 | Total as at Rs. '000 |
|---|---|---|---|---|---|---|---|
| Total financial assets | 779,088,288 | 378,017,501 | 458,110,679 | 246,707,660 | 177,899,941 | 246,914,112 | 2,286,738,181 |
| Total financial liabilities | 571,718,478 | 825,190,163 | 194,875,265 | 197,195,333 | 155,428,710 | 210,359,365 | 2,154,767,314 |
| Interest rate sensitivity gap | 207,369,810 | (447,172,662) | 263,235,414 | 49,512,327 | 49,512,327 | 36,554,747 | 131,970,867 |
| Cumulative gap | 207,369,810 | (239,802,852) | 23,432,562 | 72,944,889 | 95,416,120 | 131,970,867 | |
| RSA/RSL | 1.36 | 0.46 | 2.35 | 1.25 | 1.14 | | |

### Foreign exchange risk

Stringent risk tolerance limits for individual currency exposures as well as aggregate exposures within the regulatory limits ensure that potential losses arising out of fluctuations in FX rates are minimised and maintained within the Bank's risk appetite.

USD/LKR exchange rate depreciated by 44.8% (Source – the CBSL) during the year under review. Please refer Note 66.3.3 – Exposure to currency risk – non-trading portfolio on page 384.

Stress testing is conducted on net open position (NOP) by applying rate shocks ranging from 2% to 15% to estimate the impact on profitability and capital adequacy of the Bank (Refer Table 59 on page 228). The impact of a 1% downward change in exchange rate on the foreign currency position indicated a loss of Rs. 725.73 Mn. on the positions as of December 31, 2022 (Graph 73 on page 384 indicated the impact of a 1% upward change in exchange rate).

### Equity price risk

Although the Bank's exposure to equity price risk is negligible, mark-to-market calculations are conducted daily on FVTPL and FVOCI portfolios. The Bank has also calculated VaR on equity portfolio. Note 66.3.4 on page 385 summarises the impact of a shock of 10% on equity price on profit, other comprehensive income (OCI), and equity.

### Commodity price risk

The Bank has negligible exposure to commodity price risk which is limited to the extent of the fluctuations in the gold price on the pawning portfolio.

### Liquidity risk

Liquidity risk is the Bank's inability to meet "on" or "off" balance sheet contractual and contingent financial obligations as they fall due, without incurring unacceptable losses.

Banks are vulnerable to liquidity and solvency problems arising from mismatches in the maturities of assets and liabilities. Consequently, the primary objective of liquidity risk management is to assess and ensure the availability of funds required to meet obligations at appropriate times, both under normal and stressed conditions.

Liquid assets ratios as of December 31, 2022 are given below:

Table – 56: **Statutory liquidity ratios**

| | 2022 % | 2021 % |
|---|---|---|
| Statutory Liquid Assets Ratio (SLAR) | | |
| Domestic Banking Unit | 35.01 | 38.73 |
| Off shore Banking Centre | 32.37 | 36.39 |
| Consolidated (Sri Lankan Operation) | 35.88 | N/A |
| Liquidity Coverage Ratio (LCR) | | |
| Rupee | 405.91 | 425.97 |
| All Currencies | 293.91 | 242.52 |
| Net Stable Funding Ratio (NSFR) | 173.58 | 157.47 |

### Managing liquidity risk

The Bank manages liquidity risk through policies and procedures, measurement approaches, mitigation measures, stress testing methodologies and contingency funding arrangements. As experienced across the industry, relatively slow credit growth compared to deposit inflow, caused the Bank to have an excess liquidity situation throughout the year, as can be seen by the ratios given in Table 56 it was a challenge for the Bank to manage such excess liquidity to generate an optimum return. A major portion of the excess liquidity had to be invested in Government securities, both denominated in LKR and FCY at optimum yields to minimise adverse effects on profitability.

The Bank paid special attention and made a concerted effort to leverage opportunities available to negate the impact of the negative carry on certain treasury investments. However, the Bank has to go through a painful period until such time majority of the bonds in the portfolio mature over the next 2-3 years. A scenario analysis of the magnitude of the negative carry was conducted during the year.

To avoid the risk of potential haircuts and potential impairment provisioning, the Bank decided to accept the proceeds of the maturing USD denominated Sri Lanka Development Bonds (SLDBs) in Rupees and the NOP created as a result of forex sales was managed by operating within the permanent negative NOP limit.

Furthermore, the Bank reclassified its bonds (except LKR bonds maturing before October 2022) in line with the guidelines issued by CA Sri Lanka by way of a Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio and necessary disclosures have been made in the interim financials as well as in this Annual Report.

### Liquidity risk review

The net loans to deposits ratio is regularly monitored by the ALCO to ensure that the asset and liability portfolios of the Bank are geared to maintain a healthy liquidity position. NSFR indicating the stability of funding sources compared to loans and advances granted was maintained well above the policy threshold of 100%, which is considered healthy to support the Bank's business model and growth.

The key ratios used for measuring liquidity under the stock approach are given in below:

Table – 57: **Key ratios used for measuring liquidity under the stock approach**

| Liquidity ratios % | As at December 31, 2022 | As at December 31, 2021 |
|---|---|---|
| Loans to customer deposits | 0.64 | 0.75 |
| Net loans to total assets | 0.47 | 0.52 |
| Liquid assets to short-term liabilities | 0.53 | 0.58 |
| Purchased funds to total assets | 0.26 | 0.22 |
| (Large liabilities – Temporary Investments) to (Earning assets – Temporary Investments) | 0.26 | 0.19 |
| Commitment to total loans | 0.15 | 0.18 |

## Maturity gap analysis

Maturity gap analysis of assets and liabilities of the Bank as of December 31, 2022 is given in Note 66.2.2. (a) to the Financial Statements on pages 376 and 377.

Maturity analysis of financial assets and financial liabilities of the Bank indicates that there is sufficient funding available to weather adverse situations based on prescribed behavioural patterns.

Maturity analysis of financial assets and financial liabilities of the Bank does not indicate any adverse situation when due cognisance is given to the fact that cash outflows include savings deposits which can be considered as a quasi-stable source of funds based on historical behavioural patterns of such depositors as explained below.

## Behavioural analysis on savings accounts

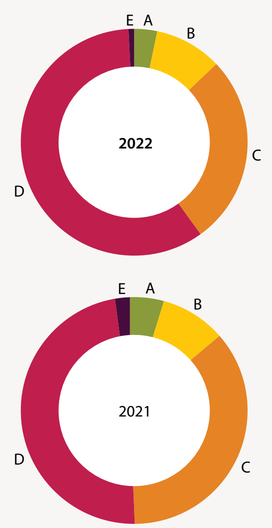
In the absence of a contractual agreement on maturity, savings deposits are treated as a non-maturing demand deposit. There is no exact re-pricing frequency for the product and the Bank resets rate offered on these deposits based on the re-pricing gap and liquidity and profitability, etc. Since there is no exact re-pricing frequency and it is less sensitive to market interest rates, the segregation of savings products among the predefined maturity buckets in the maturity gap report is done based on the regular simulations carried out by the Bank in line with behavioural study.

The liquidity position is measured in all major currencies at both individual and aggregate levels to ensure potential risks are within specified threshold limits. Additionally, potential liquidity commitments resulting from loan disbursements and undrawn overdrafts are also monitored to ensure sufficient funding sources.

## Funding diversification by product

The Bank's primary sources of funding are deposits from customers and other borrowings. Graph 51 provides a product-wise analysis of the Bank's funding diversification as of the end of 2022 and 2021.

Graph – 51: **Funding diversification by product**




| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Due to banks | 3 | 5 |
| B | Current account balances | 10 | 9 |
| C | Savings deposits | 27 | 35 |
| D | Term deposits | 59 | 49 |
| E | Other borrowings | 1 | 2 |

## Operational risk

Operational risk is the possibility of incurring losses due to insufficient or failed internal processes, people and systems, or from external events such as natural disasters, or social, or political events. It is inherent in all banking products and processes and the Bank's objective is to control it cost-effectively. The seven standard criteria in operational risk are execution, delivery and process management, internal frauds, external frauds, employment practices and workplace safety, clients, products and business practice, damage to physical assets and business, and disruption and system failures. Operational risk includes legal risk but excludes strategic and reputational risk.

## Managing operational risk

The Bank manages operational risk through policies, risk assessment, and risk mitigation including insurance coverage, procedures relating to outsourcing of business activities, managing technology risk, formulating a comprehensive Business Continuity Plan (BCP) and a Disaster Recovery Plan (DRP), creating a culture of risk awareness across the Bank, stress testing, and monitoring and reporting.

Policies and procedures relating to outsourcing of business activities of the Bank ensure that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed continuously. Details of all outsourced functions are reported to the CBSL annually. Due diligence tests on outsourced vendors are carried out by respective risk owners prior to executing new agreements and renewal of existing agreements. Further, bi-annual review meetings are conducted with key IT service providers to monitor service performance levels and verify adherence to the agreements.

The EIRMC/BIRMC closely monitored and ensured timely rectification of other business disruptions arising from such causes as telephone line failures, branch level system failures, fire/natural perils, industrial unrest, branch closures due to hartals, police curfew, and the COVID-19 pandemic, etc..

The Bank conducted an operational risk review of the BCP and the DRP documents including a review of the Disaster Recovery (DR) site. This process was carried out by the IRMD in accordance with Section 3 (6) (v) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for LCBs. The Act requires the BIRMC to assess the adequacy of preparedness based on an independent review of the BCP and DRP of the Bank.

During the year the Bank implemented a Group-wide Conduct Risk Management Policy Framework. Furthermore, a database that includes all operational loss events for the past 10 years of the Bank is now available in the Operational Risk Management System

(ORMS). In addition, the RCSA Framework was extended to other financial entities in the Group [CBC Finance Ltd. (CBCF), CBC Myanmar Microfinance Ltd. (CBCMM)] during the year. This framework allows each entity to identify, assess, and manage its own risks while also ensuring alignment with the Group's risk management objectives.

## Business continuity management

The Business Continuity Management (BCM) framework of the Bank encompasses various activities such as business continuity, disaster recovery, crisis management, incident management, emergency management, and contingency planning activities. Through the BCM, the Bank ensures its commitment to serving all its stakeholders ,even in times of an unforeseen disruption to business activities arising from man-made, natural, or technical disasters ,with minimum business interruptions and quickly resume its operations.

The scope of the BCM includes programme initiation and management, risk evaluation and business impact analysis, developing business continuity strategies, emergency preparedness and response, developing and implementing business continuity plans, awareness building and training, business continuity plan exercise, audit and maintenance, and crisis communications and coordination with external agencies.

In 2018, the BCP of the Bank was revamped in line with industry best practices in consultation with an external BCP expert. IT Disaster Recovery Plan, which is a key component of BCP was also reviewed and approved by the Board of Directors. IT system recovery capabilities of core banking and other critical systems of the Bank have been further strengthened by way of introducing a secondary high-availability set-up leading to improved redundancy.

The Bank was compelled to postpone the scheduled BCP exercise for 2022 to the second quarter of 2023, with the approval of the CBSL, due to delay in receiving essential network communications related equipment ordered by the Bank which needs to be installed at the Bank's DR site prior conducting the drill exercise.

## Review of operational risk

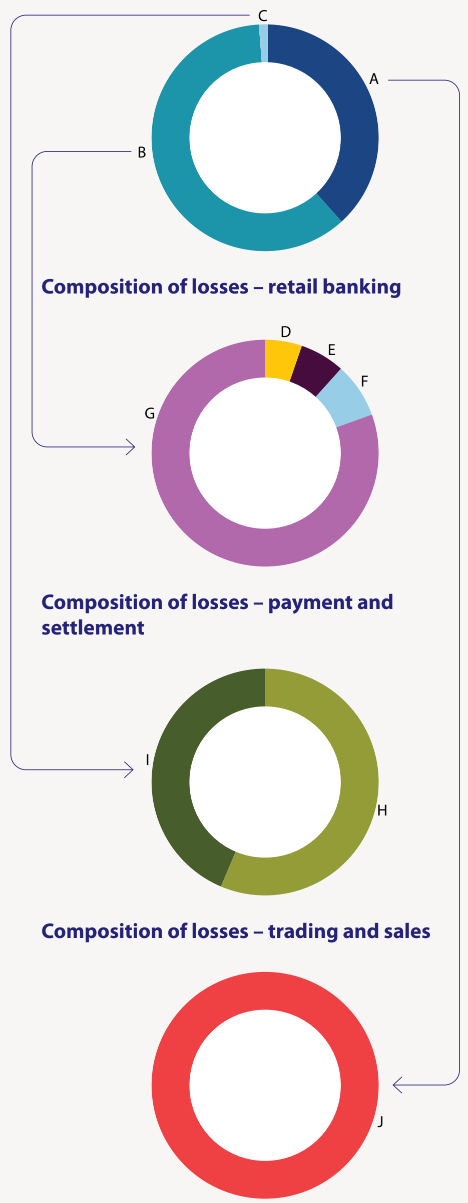
The Bank has a low appetite for operational risk and has established tolerance levels for all types of material operational risk losses based on historical loss data, budgets and forecasts, the performance of the Bank, existing systems and controls governing Bank operations, etc. The following thresholds have been established based on audited financial statements for monitoring purposes:

- Alert level – 3% of the average gross income for the past three years
- Maximum level – 5% of the average gross income for the past three years

Operational losses for the financial year 2022 were below the internal alert level at 0.86% (of average audited gross income for the past three years). The Bank has been consistently maintaining operational losses below the alert level for the past ten years, reflecting the "tone at the top", effectiveness of the governance structures, and the rigour of processes and procedures in place to manage operational risk.

Graph 52 analyses the operational risk losses incurred by the Bank in 2022 under each business line/category.

Graph – 52: **Composition of losses – 2022**



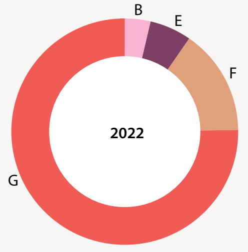

| | | | % |
|---|---|---|---|
| | A | Retail banking | 39 |
| | B | Payment and settlement | 60 |
| | C | Trading and sales | 1 |
| | D | External frauds | 5 |
| | E | Damage to physical assets | 6 |
| | F | Business disruption and system failures | 8 |
| | G | Execution delivery and process management | 81 |
| | H | Business disruption and system failures | 56 |
| | I | Execution delivery and process management | 44 |
| | J | Business disruption and system failures | 100 |

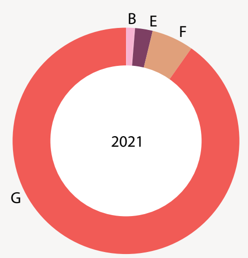
When analysing the losses incurred during 2022 under the Basel II defined business lines, it is evident that the majority (60%) of losses with financial impact falls under the business line of "Payment and Settlement", followed by the losses reported under the "Retail Banking" (39%) and "Trading & Sales" (1%) business lines. Losses relating to other business lines remained negligible.

Graphs 53 and 54 depict the comparison of operational losses reported during 2022 and 2021 under each Basel II loss event type, both in terms of the number of occurrences and value.

### Losses by number of events

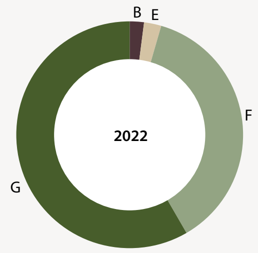
Graph – 53: **Losses by number of events**

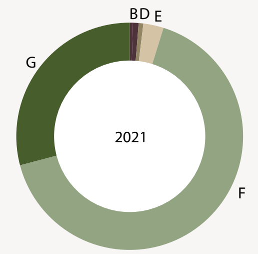



| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Internal frauds | **0** | 0 |
| B | External frauds | **4** | 1 |
| C | Employment practice and work place safety | **0** | 0 |
| D | Clients products and business practices | **0** | 0 |
| E | Damage to physical assets | **6** | 3 |
| F | Business disruption and system failures | **15** | 6 |
| G | Execution delivery and process management | **75** | 90 |

Graph – 54: **Losses by value**




| | | 2022 % | 2021 % |
|---|---|---|---|
| A | Internal frauds | **0** | 0 |
| B | External frauds | **2** | 1 |
| C | Employment practice and work place safety | **0** | 0 |
| D | Clients products and business practices | **0** | 1 |
| E | Damage to physical assets | **3** | 3 |
| F | Business Disruption and System Failures | **37** | 66 |
| G | Execution delivery and process management | **58** | 29 |

As typical with operational risk losses, the majority of the losses encountered by the Bank during 2022 consisted of high frequency/low financial impact events mainly falling under the loss category Execution, Delivery and Process Management. These low-value events are mainly related to cash and ATM operations of the Bank's service delivery network comprising over 1,000 points across Sri Lanka and Bangladesh. Individual events with monetary values less than Rs.100,000 accounted for more than 89% of the total loss events for the year. Also, the number of loss events for the year when compared to the number of transactions performed during the year stands at a mere 0.0050%.

The Bank continued to strengthen its AML compliance with new audit reports for monitoring transactions and ensuring compliance with KYC requirements during the year.

The values of the losses incurred by the Bank during the year can mainly be categorised under Execution, Delivery and Process Management related, Business Disruption and System Failures related and Damages to Physical Assets. The losses for the year were primarily driven by a limited number of events in these three categories majority of which the Bank managed to resolve through subsequent recovery/ rectification with minimum financial impact to the Bank. Further, necessary process improvements have been introduced to prevent recurrence Capital allocation pertaining to the operational risk for 2022 under Alternative Standardised Approach as per Basel III is Rs. 10.31 Bn., whereas the net losses after discounting the subsequent recoveries amount to a mere 0.488% of this capital allocation. This trend of exceptionally low levels of operational risk losses of the Bank bears testimony to the effectiveness of the Bank's operational risk management framework and the internal control environment.

### IT risk

IT risk is the business risk associated with the use, ownership, operation, involvement, influence, and adoption of IT within an organisation. It is a major component of operational risk comprising IT-related events such as system interruptions/ failures, errors, frauds through system manipulations, cyberattacks, obsolescence in applications, and falling behind competitors in terms of technology, etc., that could potentially affect the whole business. IT risks encompass governance aspects, critical system availability, access control, threat management, change management, physical and environmental security, and DR/BC planning.

Given the uncertainty pertaining to the frequency and magnitude, managing IT risk poses challenges. Hence, the Bank has accorded top priority to address IT risk placing more focus on cyber security strategies and continually investing in cyber security improvements. The Bank's cyber security strategy is focused on securely enabling new technology and business initiatives while maintaining a persistent focus on protecting the Bank and its customers from cyber threats.

The IT Risk Unit of the IRMD is responsible for implementing the IT risk management framework of the Bank, ensuring appropriate governance framework, policies, processes, and technical capabilities are in place to manage all significant IT risks. The IT Risk Management Policy, aligned with the Operational Risk Management Policy complements the Information Security Policy, the related processes, objectives, and procedures relevant to managing risk and improving the information security of the Bank.

RCSA is one of the core mechanisms for IT risk identification and assessment, and the IT Risk Unit conducts independent IT risk reviews in line with the established structure of the operational risk management process. Results of these independent IT risk assessments, together with audit findings, analysis of information, security incidents, and internal and external loss data are also employed for IT risk identification and assessment purposes.

IT risk mitigation involves prioritising, evaluating, and implementing the appropriate risk-reducing controls or risk treatment techniques recommended from the risk identification and assessment process. The Bank has built a multi-layered approach to controls into each layer of technology, including data, applications, devices, network, etc. This ensures robust end-to-end protection, while enhancing cyber threat detection, prevention, response, and recovery controls. The Bank is certified under the globally accepted, *de facto* standard for Information Security Management System (ISMS) – ISO/IEC 27001:2013 and Payment Card Industry Data Security Standard (PCI DSS), both focusing on ensuring Confidentiality, Integrity, and Availability of data/ information. The ISMS is independently validated on an annual basis by the ISO 27001 ISMS external auditors and Qualified Security Assessors of the PCI Council.

The Bank has continued to invest in information security, by enhancing information security governance in line with the CBSL directions and intensifying focus on information and cyber security with the Baseline Security Standards (BSS) rolled out across the branch network and in the head office. Initiatives taken in this regard are given under Key risk management initiatives in 2022 on pages 205 and 206 of this report.

Given that risk management relies heavily on an effective monitoring mechanism, the IT Risk Unit carries out continuous, independent monitoring of the Bank's IT risk profile using a range of tools and techniques including Key IT Risk Indicators (KIRIs). The KIRI review process involves monitoring a range of indicators including information security-related incidents, supplemented by trend analyses that accentuates high-risk or emerging issues so that prompt action can be taken to address them.

The increasing staff turnover during the year compared to the historically low levels was a concern during 2022. To address this issue, the Bank plans to implement several strategies such as creating a special grading system for IT staff and increasing the salaries of IT professionals in tandem with the market rates. The Bank also engaged in identifying the root cause of major incidents relating to IT Operations during the year. It is noteworthy to mention that despite the growth in business volumes and operations, the number of major incidents relating to IT has remained at the same level over the past decade. The mitigatory actions taken on all major operational risk events including IT-related incidents during the year were closely reviewed. There are many indicators under each of these broader categories of IT risk which is monitored on a monthly basis.

### Legal risk

Legal risk is an integral part of operational risk and is defined as the exposure to the adverse effects arising from inaccurately drawn up contracts, their execution, the absence of written agreements, or inadequate agreements. It includes, but is not limited to exposure to reprimanding, fines, penalties, or punitive damages resulting from supervisory actions as well as the cost of private settlements.

The Bank manages legal risk by ensuring that applicable regulations are fully taken into consideration in all relations and contracts with individuals and institutions who maintain business relationships with the Bank and are supported by the required documentation. The potential risk of any rules and regulations being breached is managed by the establishment and operation of an effective system for verifying the conformity of operations with relevant regulations.

### Compliance and regulatory risk

Compliance and regulatory risk refer to the potential risk to the Bank resulting from non-compliance with applicable laws, rules, and regulations and codes of conduct that could result in regulatory fines, financial losses, disruptions to business activities, and reputational damage. A compliance function reporting directly to the Board of Directors is in place to assess the Bank's compliance with external and internal regulations on an ongoing basis. A comprehensive Compliance Policy defines how this key risk is identified, monitored, and managed by the Bank in a structured manner. The Bank's culture and the Code of Ethics too play a key role in managing this risk.

The Bank maintains a strong culture of compliance by ensuring that the entire operation of the Bank is carried out in line with the prevailing regulations. The following measures were taken to further strengthen regulatory compliance requirements to ensure that effective monitoring, testing, reporting and to verify compliance with risk mitigation activities are in place and functioning as intended across the Bank.

- Incorporated new regulatory developments to internal policies, procedures, and controls.
- Added new scenarios for transaction monitoring.
- Regularly reviewed the Compliance program of the Bank.
- Covered Compliance Audit for over 125 branches/business units .
- Analysed Compliance risk and established effective controls to avoid identified shortcomings.
- Provided required training to staff members.

### Strategic risk

Strategic risk is related to strategic decisions and may manifest in the Bank not being able to keep up with the evolving market dynamics, resulting in loss of market share and failure to achieve strategic goals. Corporate planning and budgeting process, and critical evaluation of their alignment with the Bank's vision, mission, and risk appetite facilitate the management of strategic risk. The detailed scorecard-based qualitative model aligned to ICAAP is used to measure and monitor the strategic risk of the Bank. This scorecard-based approach takes a number of variables into account, including the size and sophistication of the Bank, and the nature and complexity of its operations, and highlights the areas that require focus to mitigate potential strategic risks. Strategic risk is assessed based on capital adequacy, earnings volatility, shareholder value, etc. with suitable weightage allocated for the respective criteria and scores allocated against such weights.

### Reputational risk

Reputational risk refers to risk of an adverse impact on earnings, assets, and liabilities or brand value arising from negative stakeholder perception of the Bank's business practices, activities, and financial position. The Bank recognises that reputational risk is driven by a wide range of other business risks relating to the "conduct" of the Bank that must all be actively managed. In addition, the proliferation of social media has widened the stakeholder base and expanded the sources of reputational risk. Accordingly, reputational risk is broadly managed through the systems and controls adopted for all other risk types such as credit, market, operational risk, etc., which are underpinned by the code of conduct, Anti-Bribery and Anti-Corruption Policy, Conduct Risk Management Policy Framework, Communication Policy, and business ethics that prohibit unethical behaviour and promote employees to live by the claims made. Furthermore, the detailed scorecard available to measure and monitor reputational risk under ICAAP was formalised and implemented as the Group Reputational Risk Management Policy framework during the year 2020.

## Conduct risk

As an organisation that thrives on public trust and confidence, yet is faced with many conflicting interests and trade-offs aligning the interests with those of the customers is imperative for the Bank's success and sustainability. Unfair business practices, professional misbehaviour, ethical lapses, inefficient operations, bribery and corruption, compliance failures, governance weaknesses, etc. dent customer confidence in the Bank. Proper conduct with fair outcomes for the customer is closely associated with the culture, governance structure, and the tone at the top of the Bank. The Bank adopts a customer-centric approach encompassing accountability, remuneration structures, compliance with the laws, rules and regulations in spirit, learning culture, transparency, public disclosures, Service Level Agreements and monitoring thereof, customer complaint handling procedure, and customer engagement to maintain high standards of behaviour and integrity to minimise conduct risk. During the year, the Bank developed and adopted a Board approved Conduct Risk Management Policy Framework covering the entire Group.

## Contagion risk

From a banking perspective, Contagion (Systemic) risk refers to the risk of financial stress or shock in one country, market, industry, or a counterparty spilling across to other countries, markets, industries, or counterparties, triggering disturbance and even defaults, given the highly integrated nature of the global financial systems and cross-market linkages. The impact of a single shock can amplify existing stresses and lead to larger and sustained impacts on lives and livelihoods. The spill-over effects, a form of negative externalities, can create financial volatility and cause damage to financial systems. Although COVID-19 began as a viral outbreak, it has already created a financial contagion in global markets. In the current fragile context where the outlook for the pandemic and the path to economic recovery continue to remain uncertain, the Bank is to take additional steps to identify risk elevated industries and monitor levels of distress among customers, industry sectors, regions etc. that may cause contagion risk, through the EWS, based on internal data, with a view to limit the potential impact.

## Model Risk

A subset of Operational Risk, Model Risk is the risk that occurs when financial models used to measure quantitative information fail, leading to adverse outcomes for the Bank. The Bank uses a number of models that apply statistical, economic, financial, and mathematical theories, techniques and assumptions to process data into a quantitative estimate, for the management of various risks. Model failures can occur due to programming errors, incorrect data, technical errors as well as misinterpretation of model outputs. The Bank uses extensive testing, robust governance policies, and independent reviews to manage model risk.

## Bribery and corruption-related risks

Bribery and Corruption are illegal and dishonest, and damage the reputation of the Bank. Therefore, the Bank expects its employees to refrain from giving or accepting bribes, kickbacks, or commissions nor take part in any form of corruption. The Bank has a Board approved Anti-Bribery and Anti-Corruption Policy setting out the principles for countering bribery and corruption and managing bribery and corruption risk which is accessible at https://www.combank.lk/info/file/91/anti-bribery-and-anti-corruptionpolicy as well as in the intranet of the Bank. In addition, the Bank has a Whistleblowers Charter and guidelines on accepting and/offering gifts or other illegal gratification, collection, and borrowing of funds/obtaining undue favours from customers and suppliers, holding a Directorship/being a Partner/Shareholder in private companies enumerated in the Code of Ethics and administrative circulars. In implementing the Code of Ethics and affirming its commitment to the 10th Principle of the UN Global Compact, the Bank expects all employees not only to fight corruption, but also to demonstrate that they do not abuse the power of their position as employees for personal financial or non-financial gain, solicit or accept gifts, or compromise employees or the Bank. No employee of the Bank should offer any bribe or other illegal gratification in order to obtain business for the Bank.

The Bank does not make any political contributions and the Anti-Bribery and Anti-Corruption Policy will be amended to include a prohibition of any form of political contributions during its annual review in March 2023.

## Sustainability risk

Sustainability risks can arise from the failure of the Bank to identify and manage risks related to many different aspects in accordance with the policies, guidelines, commitments and ambitions of the Bank. These risks can include harm to the society, the environment, and the climate as well as failures relating to human rights, working conditions, financial crimes, information and IT security, and even corporate governance in its operations. Sustainability risks may also be present in most other risks described above as well. Besides the SEMS Policy, with a view to formalise the Bank's approach to sustainability, the Bank adopted a Sustainability Framework (📖 Refer page 52) during the year. Any failures in relation to these aspects could result in adverse implications for the Bank in financial and reputational as well as legal perspectives. Besides the risk perspective, the Bank is aware that placing due attention on these aspects will instil public confidence and enhance stakeholder relationships. Accordingly, the Bank manages the sustainability related risks within the framework of established systems and processes.

## Capital Adequacy and ICAAP Framework

The Bank follows the Basel requirements and uses internal models as prescribed in the ICAAP framework to evaluate the risk profile, stress test risk drivers, and to determine the necessary internal capital adequacy requirements. Internal limits which are more stringent than the regulatory requirements providing early warnings with regard to capital adequacy.

ICAAP supports the regulatory review process providing valuable inputs for evaluating the required capital in line with future business plans. It integrates strategic focus and risk management plans with the capital plan in a meaningful manner, using inputs from the Senior Management, Management Committees, Board Committees, and the Board. It also takes into account the potential risk of capital being inadequate under stressed conditions.

ICAAP also supports profit optimisation through proactive decisions on exposures both current and potential, measuring vulnerabilities by conducting stress testing and scenario-based analysis. The ICAAP process also identifies gaps in managing qualitative and quantitative aspects of reputational risk and strategic risk which are not covered under Pillar I of Basel III.

The Bank is compliant with both regulatory and its prudential requirements of capital adequacy. With a loyal base of shareholders and profitable operations, the Bank is also well positioned to meet capital requirements in the longer term to cover its material risks and to support business expansion, as a Domestic Systemically Important Bank (D-SIB).

## Basel III minimum capital requirements and buffers

The Banking Act Direction No. 01 of 2016 required licensed commercial banks to meet the capital requirement set forth by Basel III commencing from July 1, 2017, with specified timelines to progressively increase minimum capital ratios to be fully implemented by January 1, 2019, which included Higher Loss Absorbency component for D-SIBs. However, as an extraordinary regulatory measure for licensed banks to support businesses and individuals affected by the outbreak of COVID-19, the CBSL permitted D-SIBs to draw down their Capital Conservation Buffers by 100 basis points.

Table – 58: **Target and actual capital**

| Capital ratios | Regulatory minimum % | Goal (internal requirement) % | 2022 % | 2021 % |
|---|---|---|---|---|
| CET 1 | 8.500 | >8.500 | 11.389 | 11.923 |
| HLA | 1.500 | >1.500 | | |
| Tier I | 10.000 | >10.000 | 11.389 | 11.923 |
| Total | 14.000 | >14.000 | 14.657 | 15.650 |

A comparison of the status as of December 31, 2022, and the minimum capital requirement prescribed by the CBSL effective from January 01, 2019, as tabulated above, demonstrates the capital strength of the Bank and bears testimony to the ability to meet stringent requirements imposed by the regulator despite the persistent economic headwinds.

The ICAAP helps the Bank to periodically evaluate the capital requirements for the next five years, develop capital augmentation plans based thereon, and submit the same for review by the CBSL. Certain unprecedented developments such as the increased impairment provisioning and the exponential increase in risk weighted assets due to the impact of the sharp depreciation of the Rupee on FCY denominated assets, the Bank had to draw down the Capital Conservation Buffer during the year based on a Capital Augmentation Plan submitted to the Central Bank. However, with the issue of Rs. 10 Bn. worth Basel III compliant – Tier II, Listed, Rated, Unsecured, Subordinated, Redeemable debentures with a Non-viability Conversion and profits generated for the year enabled the Bank to restore the capital adequacy to be above the minimum requirements by the end of the year.

The Bank has a "Basel Workgroup" consisting of members from a cross-section of business and support units to assess capital adequacy in line with the strategic direction of the Bank. While ICAAP acts as a foundation for such assessment, the Basel Workgroup is continuously seeking improvements amidst the changing landscape in different frontiers, to recommend the desired way forward to the ALCO including indications on current and future capital requirements, anticipated capital expenditure-based assessments, and desirable capital levels, etc.

Being in a capital-intensive business, the Bank is cognisant of the importance of capital. The Bank has access to a loyal base of shareholders who takes a long-term view of the Bank as well as the profits retained over the years by adopting prudent dividend policies, etc. Moreover, in order to achieve an optimised level of capital allocation, the Bank is continuously finding ways to improve the judicious allocation of capital to requirements associated with its day-to-day operations. The challenges associated with mobilising capital from external sources are also taken into account, but not excluded as a sustainable option to boost capital in the long run. The Bank is comfortable with the available capital buffer to support its growth plans/withstand stressed market conditions. However, the Bank is never complacent with the current comfort levels and believes in providing stakeholder confidence that the Bank is known for, through sound capital buffer levels.

## Stress testing

As an integral part of ICAAP under Pillar II, the Bank conducted stress testing for severe but plausible shocks on its major risk exposures periodically to evaluate the sensitivity of the current and forward risk profile relative to risk appetite and their impact on the resilience of capital, funding, liquidity, and earnings.

It also supports strategic planning, the ICAAP including capital management, liquidity management, setting of risk appetite triggers and risk tolerance limits, mitigating risks through reviewing and adjusting limits, restricting or reducing exposures and hedging strategies where appropriate, facilitating the development of risk mitigation or contingency plans across a range of stressed conditions, and supporting communication with internal and external stakeholders.

The Bank's governance framework for stress testing sets out the responsibilities and approaches to stress testing activities undertaken at the Bank, business line and risk type levels. 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 framework covers all the material risks such as credit risk, credit concentration risk, operational risk, liquidity risk, FX risk, and IRRBB using EVE and EAR perspectives. The Bank evaluates various degrees of stress levels identified in the Stress Testing Policy as Minor, Moderate, and Severe. The resulting impact on the capital is then carefully evaluated. If stress tests indicate a deterioration of the capital that does not breach the policy-level capital maintenance requirements, the same is described as a Minor risk, while a deterioration of up to 1% is considered as Moderate risk. If the impact results in the capital falling below the statutory minimum, this is considered Severe risk, warranting immediate attention of the Management to rectify the situation.

Stress testing is an effective communication tool to Senior Management, risk owners and risk managers as well as supervisors and regulators. It offers a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in hypothetical stress scenarios. The outcomes of stress testing are reported to the EIRMC and BIRMC on a quarterly basis for appropriate and proactive decision-making. Extracts from the stress testing results are set out in Table 59.

Table – 59: **Impact on CAR at minor, moderate and severe stress levels**

| Particulars | Description | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|---|
| | | **Minor** | **Moderate** | **Severe** | Minor | Moderate | Severe |
| | | % | % | % | % | % | % |
| Credit risk – asset quality downgrade | Increasing the direct non- performing facilities over the direct performing facilities for the entire portfolio[1] | -0.42 | -1.16 | -1.76 | -0.14 | -0.35 | -0.68 |
| Operational risk | Impact of;<br>1. Top five operational losses during last five years<br>2. Average of yearly operational risk losses during last three years whichever is higher | -0.04 | -0.09 | -0.19 | -0.05 | -0.11 | -0.22 |
| Foreign exchange risk | Percentage shock in the exchange rates for the Bank and Maldives operations (gross positions in each Book without netting) | -0.21 | -0.39 | -0.59 | -0.10 | -0.20 | -0.47 |
| Liquidity risk (LKR) – | 1. Withdrawal of percentage of the clients, banks and other banking institution deposits from the Bank within a period of three months<br>2. Rollover of loans to a period greater than three months | -0.03 | -0.12 | -0.25 | -0.06 | -0.14 | -0.27 |
| Interest rate risk – EAR and EVE (LKR) – Sri Lanka | To assess the long-term impact of changes in interest rates on Bank's EVE through changes in the economic value of its assets and liabilities and to assess the immediate impact of changes in interest rates on Bank's earnings through changes in its net interest income | -1.18 | -1.69 | -1.95 | -0.27 | -0.41 | -0.42 |

*[1] Stress scenarios for 2022 are based on SLFRS-9 guidelines and Staging of credit facilities pursuant to the Banking Act Direction No. 13 of 2021, whereas those for 2021 follow previous accounting standards (LKASs).*

## Monitoring and reporting

The risk management function of the Bank is responsible for identifying, measuring, monitoring, and reporting risk. To enhance the effectiveness of its role, the staff attached to it is given regular training, enabling them to develop and refine their skills. They are well supported by IT systems facilitating data extraction, analysis, and modelling of possible scenarios. Regular and ad-hoc reports are generated on Key Risk Indicators and risk matrices of the Bank as well as the subsidiaries, for review by the Senior Management, Executive and Board Committees, and the Board which relies on such reports for evaluating risk and providing strategic direction.

The reports provide information on aggregate measures of risks across products, portfolios, tenures, and geographies relative to agreed policy parameters, providing a clear representation of the risk profile and sensitivities of the risks assumed by the Bank and the Group.

## Basel III – Market Discipline

Refer Annex 2 on pages 411 to 423 for the minimum disclosure requirements under Pillar III as per the Banking Act Direction No. 01 of 2016.

Refer pages 422 and 423 on Annex 2 for the D-SIB Assessment Exercise disclosed as required by the Banking Act Direction No. 10 of 2019.

# FINANCIAL STATEMENTS

The Financial Statements, including Accounting Policies and accompanying notes, are in compliance with all applicable Accounting Standards and are free from material misstatement. As opined in the Auditors' Report, the Financial Statements provide a true and fair view of the Bank's performance, financial position, changes in equity and cash flows. Our Auditors have expressed their unqualified opinion on these Financial Statements as indicated in their "Independent Auditors' Report" to the shareholders.

# Financial calendar – 2022 and 2023

## Dividend calendar

| | **2022** | 2023 |
|---|---|---|
| First and final dividend paid/payable for the previous year | | |
| – Cash: To shareholders who have provided accurate dividend instructions (account details) | **On April 07, 2022** | – |
| To shareholders who have not provided accurate dividend instructions (account details) | **On April 11, 2022** | – |
| – Scrip | **On April 19, 2022** | On April 17, 2023 |
| Interim dividend for the year paid/payable | **Note 01** | In the fourth quarter of 2023 or first quarter of 2024* |
| Final dividend for the year (to be proposed) | **On March 30, 2023** | In March 2024 |
| Final Dividend for the current year to be paid | | |
| – Cash: To shareholders who have provided accurate dividend instructions (account details) | – | |
| To shareholders who have not provided accurate dividend instructions (account details) | – | In April 2024*** |
| – Scrip | **On April 17, 2023**** | |

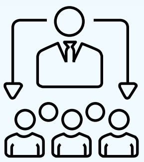
*Subject to approval by Directors **Subject to approval by Shareholders ***Subject to recommendation by Directors and approval by Shareholders

Note 01: The Bank did not declare interim cash dividends during the year 2022 (for the year ended December 31, 2022), in conformity with the requirements of the Banking Act Direction No. 02 of 2022, dated May 06, 2022, on "Restrictions on Discretionary Payments of Licensed Banks" issued by the Central Bank of Sri Lanka.

## Annual General Meeting (AGM) calendar

Annual Report and Accounts signed/to be signed

| For the year 2022 | For the year 2023 |
|---|---|
| On February 24, 2023 | In February 2024 |



Annual General Meeting to be held

| For the year 2022 | For the year 2023 |
|---|---|
| On March 30, 2023 | In March 2024 |

## Interim Financial Statements calendar

| | **Submission to the Colombo Stock Exchange (CSE)** (In terms of Rule 7.4 of the CSE and as per the requirements of the Central Bank of Sri Lanka) | | **Publication in the news papers** (As per the Direction Ref. No. 02/04/003/0401/001 dated January 26, 2006 and the Direction Ref. No. 02/04/003/0401/001 dated February 21, 2006 of the Central Bank of Sri Lanka) | | | |
|---|---|---|---|---|---|---|
| | **2022 Submitted on** | 2023 To be submitted on or before | **2022 Published/to be published on or before** | | | 2023 To be published on or before |
| | | | **English** | **Sinhala** | **Tamil** | In all three languages |
| For the three months ended/ ending March 31, (unaudited) | **May 12, 2022** | May 15, 2023 | **May 20, 2022** | **May 27, 2022** | **May 30, 2022** | May 31, 2023 |
| For the six months ended/ ending June 30, (audited) | **August 15, 2022** | August 15, 2023 | **August 22, 2022** | **August 29, 2022** | **August 29, 2022** | August 31, 2023 |
| For the nine months ended/ ending September 30, (unaudited) | **November 10, 2022** | November 15, 2023 | **November 17, 2022** | **November 24, 2022** | **November 28, 2022** | November 30, 2023 |
| For the year ended/ ending December 31, (audited) | **February 27, 2023** | February 29, 2024 | **March 31, 2023** | **March 31, 2023** | **March 31, 2023** | March 31, 2024 |

# Independent Auditors' Report

Building a better working world

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

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

HMAJ/WDPL

## TO THE SHAREHOLDERS OF COMMERCIAL BANK OF CEYLON PLC

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Commercial Bank of Ceylon 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 December 31, 2022, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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 December 31, 2022, and of its financial performance and its 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 judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Provision for credit impairment on financial assets carried at amortised cost**<br><br>Provision for credit impairment on financial assets carried at amortised cost as stated in Note 33 & 34 is determined by management in accordance with the accounting policies described in Note 7.1.12.<br><br>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.<br><br>Key areas of significant judgements estimates and assumptions used by management in the assessment of the provision for credit impairment included the following;<br>– management overlays to incorporate the current economic contraction.<br>– the incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios. | In addressing the adequacy of the provision for credit impairment on financial assets carried at amortised cost, our audit procedures included the following key procedures.<br><br>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.<br><br>• 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.<br>• 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.<br>• In addition to the above, the following procedures were performed:.<br><br>For loans and advances assessed on an individual basis for impairment:<br>– We evaluated the reasonableness of credit quality assessments.<br>– We checked the arithmetical accuracy of the underlying individual impairment calculations.<br>– 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.<br><br>For financial assets assessed on a collective basis for impairment:<br>– We tested the key inputs and the calculations used in the provision for credit impairment.<br>– 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.<br><br>• We assessed the adequacy of the related financial statement disclosures set out in Notes 33 & 66 |
| **Information Technology (IT) systems and controls over financial reporting**<br><br>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.<br><br>Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter. | Our audit procedures included the following key procedures:<br>– We obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures.<br>– We identified and test checked relevant controls of IT systems related to the Bank's financial reporting process.<br>– We involved our internal specialised resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management.<br>– 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.<br>– We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations. |

### Other information included in the Group's 2022 Annual Report

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Bank and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.
- 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.

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 1884.

**Chartered Accountants**

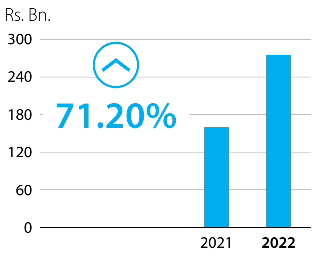
Colombo

February 24, 2023

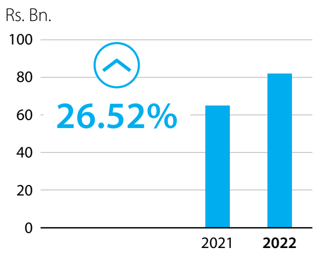
# Financial Statements Highlights – Bank

## INCOME STATEMENT

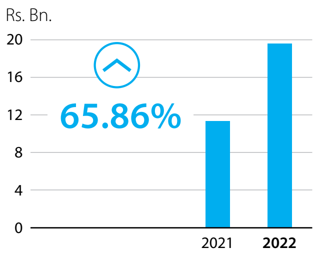
Graph – 55: **Gross income**



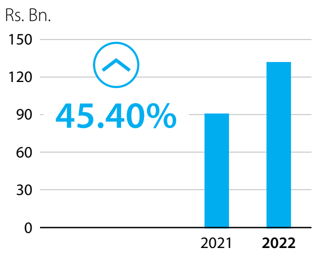

Graph – 56: **Net interest income**



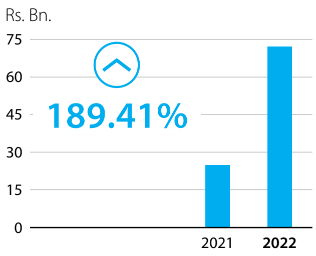

Graph – 57: **Net fee and commission income**



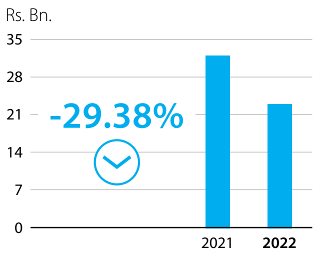

Graph – 58: **Total operating income**



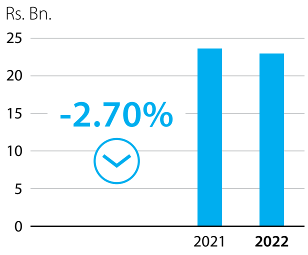

Graph – 59: **Impairment charges and other losses**



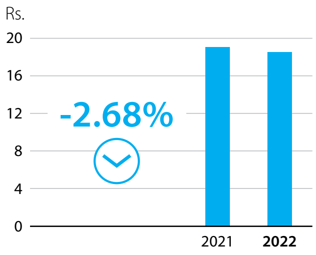

Graph – 60: **Profit before tax**



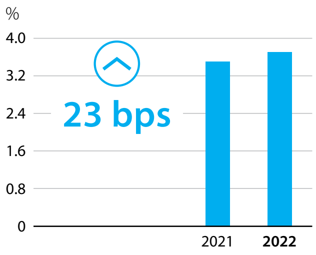

Graph – 61: **Profit after tax**



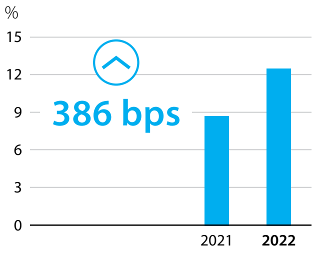

Graph – 62: **Earnings per share – basic/diluted**



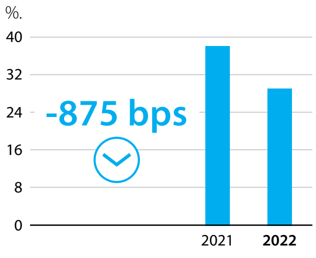

Graph – 63: **Interest margin**



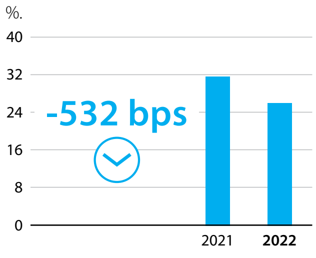

Graph – 64: **Financial intermediation margin**




Graph – 65: **Cost Income Ratio including taxes on financial services**

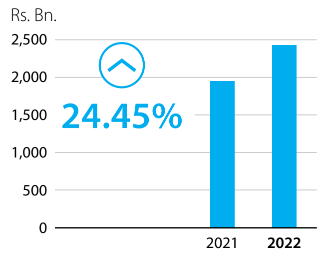



Graph – 66: **Cost Income Ratio excluding taxes on financial services**

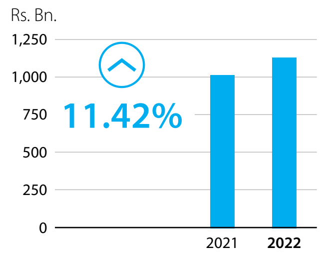



## ASSETS AND LIABILITIES

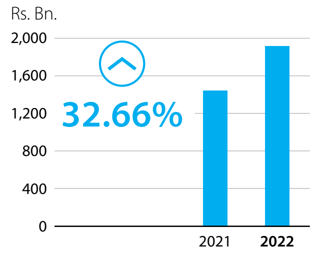
Graph – 67: **Total assets**



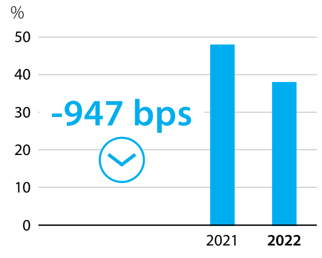

Graph – 68: **Net financial assets at amortised cost – loans and advances to other customers**




Graph – 69: **Financial liabilities at amortised cost – due to depositors**




Graph – 70: **CASA Ratio**



# Financial Statements – Table of contents

# Income Statement

| For the year ended December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | GROUP Change % | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 | BANK Change % |
|---|---|---|---|---|---|---|---|---|
| **Gross income** | 12 | 272 | 280,386,944 | 163,675,312 | 71.31 | 275,443,682 | 160,885,882 | 71.20 |
| Interest income | 13.1 | 272 | 222,393,079 | 132,818,178 | 67.44 | 218,326,576 | 130,443,030 | 67.37 |
| Less: Interest expense | 13.2 | 273 | 137,727,868 | 66,401,846 | 107.42 | 136,582,546 | 65,832,418 | 107.47 |
| **Net interest income** | 13 | 272 | 84,665,211 | 66,416,332 | 27.48 | 81,744,030 | 64,610,612 | 26.52 |
| Fee and commission income | 14.1 | 274 | 26,191,530 | 15,917,337 | 64.55 | 25,463,976 | 15,410,402 | 65.24 |
| Less: Fee and commission expense | 14.2 | 275 | 6,022,429 | 3,675,143 | 63.87 | 5,972,708 | 3,658,939 | 63.24 |
| **Net fee and commission income** | 14 | 274 | 20,169,101 | 12,242,194 | 64.75 | 19,491,268 | 11,751,463 | 65.86 |
| Net gains/(losses) from trading | 15 | 275 | 35,297,450 | 1,936,007 | 1,723.21 | 35,297,450 | 1,936,007 | 1,723.21 |
| Net gains/(losses) from derecognition of financial assets | 16 | 275 | 276,884 | 3,001,574 | (90.78) | 276,884 | 3,001,574 | (90.78) |
| Net other operating income | 17 | 276 | (3,771,999) | 10,002,216 | (137.71) | (3,921,204) | 10,094,869 | (138.84) |
| **Total operating income** | | | 136,636,647 | 93,598,323 | 45.98 | 132,888,428 | 91,394,525 | 45.40 |
| Less: Impairment charges and other losses | 18 | 276 | 71,924,260 | 25,139,926 | 186.10 | 71,461,622 | 24,692,343 | 189.41 |
| **Net operating income** | | | 64,712,387 | 68,458,397 | (5.47) | 61,426,806 | 66,702,182 | (7.91) |
| **Less: Expenses** | | | | | | | | |
| Personnel expenses | 19 | 280 | 19,788,283 | 16,799,212 | 17.79 | 19,112,546 | 16,321,317 | 17.10 |
| Depreciation and amortisation | 20 | 280 | 3,598,371 | 3,220,066 | 11.75 | 3,563,476 | 3,178,628 | 12.11 |
| Other operating expenses | 21 | 281 | 12,895,587 | 9,638,461 | 33.79 | 12,260,183 | 9,391,810 | 30.54 |
| **Total operating expenses** | | | 36,282,241 | 29,657,739 | 22.34 | 34,936,205 | 28,891,755 | 20.92 |
| **Operating profit before taxes on financial services** | | | 28,430,146 | 38,800,658 | (26.73) | 26,490,601 | 37,810,427 | (29.94) |
| Less: Taxes on financial services | 22 | 281 | 3,921,381 | 5,845,230 | (32.91) | 3,892,216 | 5,809,224 | (33.00) |
| **Operating profit after taxes on financial services** | | | 24,508,765 | 32,955,428 | (25.63) | 22,598,385 | 32,001,203 | (29.38) |
| Share of profit/(loss) of associate, net of tax | 37.1 | 306 | (3,727) | 1,896 | (296.57) | – | – | – |
| **Profit before tax** | | | 24,505,038 | 32,957,324 | (25.65) | 22,598,385 | 32,001,203 | (29.38) |
| Less: Income tax expense/(reversal) | 23 | 282 | 105,566 | 8,667,036 | (98.78) | (371,406) | 8,395,152 | (104.42) |
| **Profit for the year** | | | 24,399,472 | 24,290,288 | 0.45 | 22,969,791 | 23,606,051 | (2.70) |
| **Profit attributable to:** | | | | | | | | |
| Equity holders of the Bank | | | 23,811,914 | 24,062,469 | (1.04) | 22,969,791 | 23,606,051 | (2.70) |
| Non-controlling interest | 56 | 344 | 587,558 | 227,819 | 157.91 | – | – | – |
| **Profit for the year** | | | 24,399,472 | 24,290,288 | 0.45 | 22,969,791 | 23,606,051 | (2.70) |
| **Earnings per share** | | | | | | | | |
| Basic earnings per ordinary share (Rs.) | 24.1 | 283 | 19.21 | 19.41 | (1.03) | 18.53 | 19.04 | (2.68) |
| Diluted earnings per ordinary share (Rs.) | 24.1 | 283 | 19.21 | 19.41 | (1.03) | 18.53 | 19.04 | (2.68) |

The Notes appearing on pages 249 to 386 form an integral part of these Financial Statements.

# Statement of Profit or Loss and Other Comprehensive Income

| | | | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|---|---|
| *For the year ended December 31,* | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | Change % | **2022 Rs. '000** | 2021 Rs. '000 | Change % |
| **Profit for the year** | | | **24,399,472** | 24,290,288 | 0.45 | **22,969,791** | 23,606,051 | (2.70) |
| **Other comprehensive income, net of tax** | | | | | | | | |
| **Items that will never be reclassified to profit or loss** | | | | | | | | |
| Net actuarial gains/(losses) on defined benefit plans | | | (19,835) | 10,944 | (281.24) | (22,166) | 6,051 | (466.32) |
| Gains/(losses) on remeasurement of defined benefit liability/asset | | | (85,582) | 33,309 | (356.93) | (88,363) | 26,549 | (432.83) |
| Less: Deferred tax charge/(reversal) on actuarial gains/(losses) – includes the effect of tax rate change | | | (65,747) | 22,365 | (393.97) | (66,197) | 20,498 | (422.94) |
| Net change in revaluation surplus | 55.1 | 342 | (884,829) | 589,166 | (250.18) | (799,110) | 532,740 | (250.00) |
| Changes in revaluation surplus/(deficit) | | | – | – | – | – | – | – |
| Less: Deferred tax charge/(reversal) on revaluation surplus due to the effect of tax rate change | | | 884,829 | (589,166) | 250.18 | 799,110 | (532,740) | 250.00 |
| Net change in fair value of investments in equity | | | (233,640) | 156,573 | (249.22) | (233,640) | 156,573 | (249.22) |
| Change in fair value of investments in equity at fair value through other comprehensive income | | | (233,640) | 156,573 | (249.22) | (233,640) | 156,573 | (249.22) |
| Transfer of fair value losses o/a reclassification of debt instruments from fair value through other comprehensive income to amortised cost, net of tax | | | 26,481,256 | – | 100.00 | 26,481,256 | – | 100.00 |
| Gain on disposal of investments in equity instruments | | | 7,373 | – | 100.00 | 7,373 | – | 100.00 |
| Share of other comprehensive income/(expense) of associate, net of tax | 37.1 | 306 | (1,399) | (1,512) | 7.47 | – | – | – |
| **Items that are or may be reclassified to profit or loss** | | | | | | | | |
| Net gains/(losses) arising from translating the Financial Statements of foreign operations | 55.4 | 343 | 18,347,815 | 1,278,891 | 1,334.67 | 14,876,983 | 1,152,856 | 1,190.45 |
| Net gains/(losses) on investment in financial assets at fair value through other comprehensive income | | | (14,194,634) | (12,598,258) | (12.67) | (14,188,698) | (12,599,079) | (12.62) |
| Fair value gains/(losses) that arose during the year, net of tax | | | (15,536,105) | (12,917,795) | (20.27) | (15,530,169) | (12,918,616) | (20.22) |
| Fair value gains/(losses) realised to the Income Statement on disposal, net of tax | | | (197,675) | (2,281,196) | 91.33 | (197,675) | (2,281,196) | 91.33 |
| Fair value gains/(losses) recycled to the Income Statement as impairment, net of tax | | | 1,539,146 | 2,600,733 | (40.82) | 1,539,146 | 2,600,733 | (40.82) |
| Cash flow hedges – effective portion of changes in fair value, net of tax | 55.6 | 343 | 92,896 | 46,169 | 101.21 | 92,896 | 46,169 | 101.21 |
| **Other comprehensive income/(expense) for the year, net of tax** | | | **29,595,003** | (10,518,027) | 381.37 | **26,214,894** | (10,704,690) | 344.89 |
| **Total comprehensive income for the year** | | | **53,994,475** | 13,772,261 | 292.05 | **49,184,685** | 12,901,361 | 281.24 |
| **Attributable to:** | | | | | | | | |
| Equity holders of the Bank | | | 51,939,463 | 13,435,179 | 286.59 | 49,184,685 | 12,901,361 | 281.24 |
| Non-controlling interest | | | 2,055,012 | 337,082 | 509.65 | – | – | – |
| **Total comprehensive income for the year** | | | **53,994,475** | 13,772,261 | 292.05 | **49,184,685** | 12,901,361 | 281.24 |

The Notes appearing on pages 249 to 386 form an integral part of these Financial Statements.

# Statement of Financial Position

| | | | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 | Change % | 2022 Rs. '000 | 2021 Rs. '000 | Change % |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 28 | 290 | 151,109,490 | 69,335,379 | 117.94 | 149,393,611 | 68,078,076 | 119.44 |
| Balances with Central Banks | 29 | 291 | 78,597,120 | 56,777,465 | 38.43 | 66,493,499 | 52,897,908 | 25.70 |
| Placements with banks | 30 | 291 | 96,082,937 | 12,498,709 | 668.74 | 95,899,645 | 11,584,952 | 727.79 |
| Securities purchased under resale agreements | | | 1,517,308 | 3,000,490 | (49.43) | 1,517,308 | 3,000,490 | (49.43) |
| Derivative financial assets | 31 | 292 | 8,345,091 | 3,245,120 | 157.16 | 8,345,091 | 3,245,120 | 157.16 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | 24,873,057 | 23,436,123 | 6.13 | 24,873,057 | 23,436,123 | 6.13 |
| Financial assets at amortised cost – loans and advances to other customers | 33 | 296 | 1,155,492,527 | 1,029,584,075 | 12.23 | 1,130,442,579 | 1,014,618,580 | 11.42 |
| Financial assets at amortised cost – debt and other financial instruments | 34 | 300 | 761,650,234 | 385,390,598 | 97.63 | 725,935,299 | 369,417,889 | 96.51 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | 118,652,257 | 335,953,802 | (64.68) | 117,056,240 | 335,463,338 | (65.11) |
| Investments in subsidiaries | 36 | 304 | – | – | – | 5,808,429 | 5,808,429 | – |
| Investment in associate | 37 | 306 | 55,302 | 60,428 | (8.48) | 44,331 | 44,331 | – |
| Property, plant and equipment and right-of-use assets | 38 | 307 | 27,446,607 | 24,744,634 | 10.92 | 25,425,452 | 23,075,467 | 10.18 |
| Investment properties | 39 | 319 | 80,350 | 72,400 | 10.98 | – | – | – |
| Intangible assets | 40 | 321 | 4,113,200 | 2,272,639 | 80.99 | 3,563,120 | 1,724,864 | 106.57 |
| Deferred tax assets | 41 | 322 | 30,727,213 | 10,036,105 | 206.17 | 30,301,203 | 9,793,129 | 209.41 |
| Other assets | 42 | 324 | 40,811,211 | 27,083,177 | 50.69 | 40,699,168 | 27,024,475 | 50.60 |
| **Total assets** | | | 2,499,553,904 | 1,983,491,144 | 26.02 | 2,425,798,032 | 1,949,213,171 | 24.45 |
| **Liabilities** | | | | | | | | |
| Due to banks | 43 | 325 | 64,971,170 | 73,801,195 | (11.96) | 65,130,061 | 73,777,420 | (11.72) |
| Derivative financial liabilities | 44 | 325 | 2,880,667 | 2,092,198 | 37.69 | 2,880,667 | 2,092,198 | 37.69 |
| Securities sold under repurchase agreements | | | 97,726,435 | 151,424,854 | (35.46) | 97,726,435 | 151,911,842 | (35.67) |
| Financial liabilities at amortised cost – due to depositors | 45 | 325 | 1,977,743,661 | 1,472,640,456 | 34.30 | 1,914,359,494 | 1,443,093,453 | 32.66 |
| Financial liabilities at amortised cost – other borrowings | 46 | 326 | 16,150,356 | 32,587,051 | (50.44) | 16,150,356 | 32,587,051 | (50.44) |
| Current tax liabilities | 47 | 327 | 24,916,074 | 9,486,772 | 162.64 | 24,475,319 | 9,294,180 | 163.34 |
| Deferred tax liabilities | 41 | 322 | 437,123 | 349,106 | 25.21 | – | – | – |
| Other liabilities | 48 | 327 | 40,354,877 | 33,253,518 | 21.36 | 39,860,573 | 33,210,883 | 20.02 |
| Due to subsidiaries | 49 | 335 | – | – | – | 115,484 | 48,699 | 137.14 |
| Subordinated liabilities | 50 | 336 | 61,400,967 | 38,303,466 | 60.30 | 61,400,967 | 38,303,466 | 60.30 |
| **Total liabilities** | | | 2,286,581,330 | 1,813,938,616 | 26.06 | 2,222,099,356 | 1,784,319,192 | 24.53 |
| **Equity** | | | | | | | | |
| Stated capital | 51 | 338 | 58,149,621 | 54,566,957 | 6.57 | 58,149,621 | 54,566,957 | 6.57 |
| Statutory reserves | 53 | 340 | 12,079,670 | 10,590,338 | 14.06 | 11,352,858 | 10,204,368 | 11.25 |
| Retained earnings | 54 | 341 | 6,790,304 | 9,890,762 | (31.35) | 5,592,121 | 9,028,265 | (38.06) |
| Other reserves | 55 | 341 | 131,845,571 | 92,426,660 | 42.65 | 128,604,076 | 91,094,389 | 41.18 |
| **Total equity attributable to equity holders of the Bank** | | | 208,865,166 | 167,474,717 | 24.71 | 203,698,676 | 164,893,979 | 23.53 |
| **Non-controlling interest** | 56 | 344 | 4,107,408 | 2,077,811 | 97.68 | – | – | – |
| **Total equity** | | | 212,972,574 | 169,552,528 | 25.61 | 203,698,676 | 164,893,979 | 23.53 |
| **Total liabilities and equity** | | | 2,499,553,904 | 1,983,491,144 | 26.02 | 2,425,798,032 | 1,949,213,171 | 24.45 |
| **Contingent liabilities and commitments** | 57 | 344 | 555,531,537 | 685,379,028 | (18.95) | 549,421,699 | 682,399,783 | (19.49) |
| **Net assets value per ordinary share (Rs.)** | 58 | 346 | 168.47 | 140.24 | 20.13 | 164.30 | 138.08 | 18.99 |
| **Memorandum information** | | | | | | | | |
| Number of employees | | | | | | 5,121 | 5,072 | |
| Number of customer service centres | | | | | | 289 | 287 | |

The Notes appearing on pages 249 to 386 form an integral part of these Financial Statements.

*Certification*
These Financial Statements have been prepared in compliance with requirements of the Companies Act No. 07 of 2007.

**K D N Buddhipala**
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.

**Prof A K W Jayawardane**
Chairman

**Sharhan Muhseen**
Deputy Chairman

**S C U Manatunge**
Managing Director/
Chief Executive Officer

**R A P Rajapaksha**
Company Secretary

Colombo
February 24, 2023

# Statement of Changes in Equity – Group

| | Note | Page No. | Stated capital Rs. '000 | Statutory reserve fund Rs. '000 |
|---|---|---|---|---|
| **Balance as at December 31, 2020** | | | 52,187,747 | 9,285,233 |
| **Total comprehensive income for the year 2021** | | | | |
| Profit for the year | | | – | – |
| Other comprehensive income, net of tax | | | – | – |
| Net actuarial gains/(losses) on defined benefit plans | | | – | – |
| Share of other comprehensive income/(expense) of associate, net of tax | 55.3 | 342 | – | – |
| Net change in revaluation surplus | 55.1 | 342 | – | – |
| Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income | 55.3 | 342 | – | – |
| Net gains/(losses) arising from translating the Financial Statements of foreign operations | 55.4 | 343 | – | – |
| Cash flow hedges – effective portion of changes in fair value, net of tax | 55.6 | 343 | – | – |
| **Total comprehensive income for the year 2021** | | | – | – |
| **Transactions with owners recognised directly in equity, contributions by and distributions to owners** | | | | |
| Issue of ordinary voting shares under employee share option plans | 51 | 338 | 40,866 | – |
| Transfer o/a share-based payment transactions | 51 | 338 | 3,646 | – |
| Transfer of cost o/a of expired ESOP shares (net of tax) | 54 & 55.5 | 341 & 343 | – | – |
| Dividends to equity holders | | | 2,334,698 | |
| First & Final dividend for 2020 satisfied in the form of cash | 25 | 284 | – | – |
| First & Final dividend for 2020 satisfied in the form of issue and allotment of new shares | 25 | 284 | 2,334,698 | – |
| Unclaimed dividend absorbed/(dividend paid) in respect of previous years | | | – | – |
| Interim Dividend for 2021 | | | – | – |
| Share-based payment transactions | 55.5 | 343 | – | – |
| Transfers during the year | 53 to 55 | 340 to 343 | – | 1,305,105 |
| **Total transactions with equity holders** | | | 2,379,210 | 1,305,105 |
| **Balance as at December 31, 2021** | | | 54,566,957 | 10,590,338 |
| Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 | 54 | 341 | – | – |
| **Adjusted balance as at January 01, 2022** | | | 54,566,957 | 10,590,338 |

| Retained earnings | Other reserves: Revaluation reserve | Other reserves: Fair value reserve | Other reserves: Foreign currency translation reserve | Other reserves: Hedging reserve | Other reserves: General reserve | Other reserves: Employee share option reserve | Shareholders' funds | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 8,124,261 | 10,504,768 | 463,884 | 3,325,924 | (102,511) | 74,970,003 | 433,503 | 159,192,812 | 1,755,897 | 160,948,709 |
| | | | | | | | | | |
| 24,062,469 | – | – | – | – | – | – | 24,062,469 | 227,819 | 24,290,288 |
| 8,647 | 579,943 | (12,443,197) | 1,181,148 | 46,169 | – | – | (10,627,290) | 109,263 | (10,518,027) |
| 8,647 | – | | – | – | – | – | 8,647 | 2,297 | 10,944 |
| – | – | (1,512) | – | – | – | – | (1,512) | – | (1,512) |
| – | 579,943 | – | – | – | – | – | 579,943 | 9,223 | 589,166 |
| – | – | (12,441,685) | – | – | – | – | (12,441,685) | – | (12,441,685) |
| – | – | – | 1,181,148 | – | – | – | 1,181,148 | 97,743 | 1,278,891 |
| – | – | – | – | 46,169 | – | – | 46,169 | – | 46,169 |
| 24,071,116 | 579,943 | (12,443,197) | 1,181,148 | 46,169 | – | – | 13,435,179 | 337,082 | 13,772,261 |
| | | | | | | | | | |
| – | – | – | – | – | – | – | 40,866 | – | 40,866 |
| – | – | – | – | – | – | (3,646) | – | – | – |
| 244,188 | – | – | – | – | – | (321,300) | (77,112) | – | (77,112) |
| (7,493,698) | – | – | – | – | – | – | (5,159,000) | (15,168) | (5,174,168) |
| (5,253,070) | – | – | – | – | – | – | (5,253,070) | (12,200) | (5,265,270) |
| (2,334,698) | – | – | – | – | – | – | – | – | – |
| 94,070 | – | – | – | – | – | – | 94,070 | 32 | 94,102 |
| – | – | – | – | – | – | – | – | (3,000) | (3,000) |
| – | – | – | – | – | – | 41,972 | 41,972 | – | 41,972 |
| (15,055,105) | – | – | – | – | 13,750,000 | – | – | – | – |
| (22,304,615) | – | – | – | – | 13,750,000 | (282,974) | (5,153,274) | (15,168) | (5,168,442) |
| 9,890,762 | 11,084,711 | (11,979,313) | 4,507,072 | (56,342) | 88,720,003 | 150,529 | 167,474,717 | 2,077,811 | 169,552,528 |
| (5,205,524) | – | – | – | – | – | – | (5,205,524) | (11,050) | (5,216,574) |
| 4,685,238 | 11,084,711 | (11,979,313) | 4,507,072 | (56,342) | 88,720,003 | 150,529 | 162,269,193 | 2,066,761 | 164,335,954 |

| | Note | Page No. | Stated capital Rs. '000 | Statutory reserve fund Rs. '000 |
|---|---|---|---|---|
| **Total comprehensive income for the year 2022** | | | | |
| Profit for the year | | | – | – |
| Other comprehensive income, net of tax | | | – | – |
| Net actuarial gains/(losses) on defined benefit plans | | | – | – |
| Gain on disposal of investments in equity instruments | | | – | – |
| Share of other comprehensive income/(expense) of associate, net of tax | 55.3 | 342 | – | – |
| Net change in revaluation surplus | 55.1 | 342 | – | – |
| Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income | 55.3 | 342 | – | – |
| Net gains/(losses) arising from translating the Financial Statements of foreign operations | 55.4 | 343 | – | – |
| Cash flow hedges – effective portion of changes in fair value, net of tax | 55.6 | 343 | – | – |
| **Total comprehensive income for the year 2022** | | | – | – |
| **Transactions with owners recognised directly in equity, contributions by and distributions to owners** | | | | |
| Dividends to equity holders | | | 3,582,664 | – |
| First & Final dividend for 2021 satisfied in the form of cash | 25 | 284 | – | – |
| First & Final dividend for 2021 satisfied in the form of issue and allotment of new shares | 25 | 284 | 3,582,664 | – |
| Unclaimed dividend absorbed/(dividend paid) in respect of previous years | | | – | – |
| Interim Dividend for 2022 | | | – | – |
| Transfers during the year | 53 to 55 | 340 | – | 1,489,332 |
| **Total transactions with equity holders** | 60 | 343 | 3,582,664 | 1,489,332 |
| **Balance as at December 31, 2022** | | | 58,149,621 | 12,079,670 |

The Notes appearing on pages 249 to 386 form an integral part of these Financial Statements.

| Retained earnings | Other reserves | | | | | | Shareholders' funds | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Revaluation reserve | Fair value reserve | Foreign currency translation reserve | Hedging reserve | General reserve | Employee share option reserve | | | |
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| | | | | | | | | | |
| 23,811,914 | – | – | – | – | – | – | 23,811,914 | 587,558 | 24,399,472 |
| (11,362) | (870,467) | 12,051,583 | 16,864,899 | 92,896 | – | – | 28,127,549 | 1,467,454 | 29,595,003 |
| (18,735) | – | – | – | – | – | – | (18,735) | (1,100) | (19,835) |
| 7,373 | – | – | – | – | – | – | 7,373 | – | 7,373 |
| – | – | (1,399) | – | – | – | – | (1,399) | – | (1,399) |
| – | (870,467) | – | – | – | – | – | (870,467) | (14,362) | (884,829) |
| – | – | 12,052,982 | – | – | – | – | 12,052,982 | – | 12,052,982 |
| – | – | – | 16,864,899 | – | – | – | 16,864,899 | 1,482,916 | 18,347,815 |
| – | – | – | – | 92,896 | – | – | 92,896 | – | 92,896 |
| 23,800,552 | (870,467) | 12,051,583 | 16,864,899 | 92,896 | – | – | 51,939,463 | 2,055,012 | 53,994,475 |
| | | | | | | | | | |
| (8,926,154) | – | – | – | – | – | – | (5,343,490) | (14,365) | (5,357,855) |
| (5,373,996) | – | – | – | – | – | – | (5,373,996) | (10,800) | (5,384,796) |
| (3,582,664) | – | – | – | – | – | – | – | – | – |
| 30,506 | – | – | – | – | – | – | 30,506 | 35 | 30,541 |
| – | – | – | – | – | – | – | – | (3,600) | (3,600) |
| (12,769,332) | – | – | – | – | 11,280,000 | – | – | – | – |
| (21,695,486) | – | – | – | – | 11,280,000 | – | (5,343,490) | (14,365) | (5,357,855) |
| 6,790,304 | 10,214,244 | 72,270 | 21,371,971 | 36,554 | 100,000,003 | 150,529 | 208,865,166 | 4,107,408 | 212,972,574 |

# Statement of Changes in Equity – Bank

| | Note | Page No. | Stated capital Rs. '000 | Statutory reserve fund Rs. '000 |
|---|---|---|---|---|
| **Balance as at December 31, 2020** | | | 52,187,747 | 9,024,065 |
| **Total comprehensive income for the year 2021** | | | | |
| Profit for the year | | | – | – |
| Other comprehensive income, net of tax | | | – | – |
| Net actuarial gains/(losses) on defined benefit plans | | | – | – |
| Net change in revaluation surplus | 55.1 | 342 | – | – |
| Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income | 55.3 | 342 | – | – |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operations | 55.4 | 343 | – | – |
| Cash flow hedges – effective portion of changes in fair value, net of tax | 55.6 | 343 | – | – |
| **Total comprehensive income for the year 2021** | | | – | – |
| **Transactions with owners recognised directly in equity, contributions by and distributions to owners** | | | | |
| Issue of ordinary voting shares under employee share option plans | 51 | 338 | 40,866 | – |
| Transfer o/a share-based payment transactions | 51 | 338 | 3,646 | – |
| Transfer of cost o/a of expired ESOP Shares (net of tax) | 54 & 55.5 | 341 & 343 | – | – |
| Dividends to equity holders | | | 2,334,698 | – |
| First & Final dividend for 2020 satisfied in the form of cash | 25 | 284 | – | – |
| First & Final dividend for 2020 satisfied in the form of issue and allotment of new shares | 25 | 284 | 2,334,698 | – |
| Unclaimed dividend absorbed/(dividend paid) in respect of previous years | | | – | – |
| Share-based payment transactions | 55.5 | 343 | – | – |
| Transfers during the year | 53 to 55 | 340 to 343 | – | 1,180,303 |
| **Total transactions with equity holders** | | | 2,379,210 | 1,180,303 |
| **Balance as at December 31, 2021** | | | 54,566,957 | 10,204,368 |
| Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 | 54 | 341 | – | – |
| **Adjusted balance as at January 01, 2022** | | | 54,566,957 | 10,204,368 |

| | Other reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| Retained earnings Rs. '000 | Revaluation reserve Rs. '000 | Fair value reserve Rs. '000 | Foreign currency translation reserve Rs. '000 | Hedging reserve Rs. '000 | General reserve Rs. '000 | Employee share option reserve Rs. '000 | Total equity Rs. '000 |
| 7,596,260 | 9,662,912 | 462,331 | 2,911,866 | (102,511) | 74,970,003 | 433,503 | 157,146,176 |
| 23,606,051 | – | – | – | – | – | – | 23,606,051 |
| 6,051 | 532,740 | (12,442,506) | 1,152,856 | 46,169 | – | – | (10,704,690) |
| 6,051 | – | – | – | – | – | – | 6,051 |
| – | 532,740 | – | – | – | – | – | 532,740 |
| – | – | (12,442,506) | – | – | – | – | (12,442,506) |
| – | – | – | 1,152,856 | – | – | – | 1,152,856 |
| – | – | – | – | 46,169 | – | – | 46,169 |
| 23,612,102 | 532,740 | (12,442,506) | 1,152,856 | 46,169 | – | – | 12,901,361 |
| – | – | – | – | – | – | – | 40,866 |
| – | – | – | – | – | – | (3,646) | – |
| 244,188 | – | – | – | – | – | (321,300) | (77,112) |
| (7,493,982) | – | – | – | – | – | – | (5,159,284) |
| (5,253,070) | – | – | – | – | – | – | (5,253,070) |
| (2,334,698) | – | – | – | – | – | – | – |
| 93,786 | – | – | – | – | – | – | 93,786 |
| – | – | – | – | – | – | 41,972 | 41,972 |
| (14,930,303) | – | – | – | – | 13,750,000 | – | – |
| (22,180,097) | – | – | – | – | 13,750,000 | (282,974) | (5,153,558) |
| 9,028,265 | 10,195,652 | (11,980,175) | 4,064,722 | (56,342) | 88,720,003 | 150,529 | 164,893,979 |
| (5,036,184) | – | – | – | – | – | – | (5,036,184) |
| 3,992,081 | 10,195,652 | (11,980,175) | 4,064,722 | (56,342) | 88,720,003 | 150,529 | 159,857,795 |

| | Note | Page No. | Stated capital Rs. '000 | Statutory reserve fund Rs. '000 |
|---|---|---|---|---|
| **Total comprehensive income for the year 2022** | | | | |
| Profit for the year | | | – | – |
| Other comprehensive income, net of tax | | | – | – |
| Net actuarial gains/(losses) on defined benefit plans | | | – | – |
| Gain on disposal of investments in equity instruments | | | – | – |
| Net change in revaluation surplus | 55.1 | 342 | – | – |
| Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income | 55.3 | 342 | – | – |
| Net gains/(losses) arising from translating the Financial Statements of the foreign operations | 55.4 | 343 | – | – |
| Cash flow hedges – effective portion of changes in fair value, net of tax | 55.6 | 343 | – | – |
| **Total comprehensive income for the year 2022** | | | – | – |
| **Transactions with owners recognised directly in equity, contributions by and distributions to owners** | | | | |
| Dividends to equity holders | | | 3,582,664 | – |
| First & Final dividend for 2021 satisfied in the form of cash | 25 | 284 | – | – |
| First & Final dividend for 2021 satisfied in the form of issue and allotment of new shares | 25 | 284 | 3,582,664 | – |
| Unclaimed dividend absorbed/(dividend paid) in respect of previous years | | | – | – |
| Transfers during the year | 53 to 55 | 340 to 343 | – | 1,148,490 |
| **Total transactions with equity holders** | | | 3,582,664 | 1,148,490 |
| **Balance as at December 31, 2022** | | | 58,149,621 | 11,352,858 |

The Notes appearing on pages 249 to 386 form an integral part of these Financial Statements.

| Retained earnings Rs. '000 | Other reserves: Revaluation reserve Rs. '000 | Fair value reserve Rs. '000 | Foreign currency translation reserve Rs. '000 | Hedging reserve Rs. '000 | General reserve Rs. '000 | Employee share option reserve Rs. '000 | Total equity Rs. '000 |
|---|---|---|---|---|---|---|---|
| 22,969,791 | – | – | – | – | – | – | 22,969,791 |
| (14,793) | (799,110) | 12,058,918 | 14,876,983 | 92,896 | – | – | 26,214,894 |
| (22,166) | – | – | – | – | – | – | (22,166) |
| 7,373 | – | – | – | – | – | – | 7,373 |
| – | (799,110) | – | – | – | – | – | (799,110) |
| – | – | 12,058,918 | – | – | – | – | 12,058,918 |
| – | – | – | 14,876,983 | – | – | – | 14,876,983 |
| – | – | – | – | 92,896 | – | – | 92,896 |
| 22,954,998 | (799,110) | 12,058,918 | 14,876,983 | 92,896 | – | – | 49,184,685 |
| | | | | | | | |
| (8,926,468) | – | – | – | – | – | – | (5,343,804) |
| (5,373,996) | – | – | – | – | – | – | (5,373,996) |
| (3,582,664) | – | – | – | – | – | – | – |
| 30,192 | – | – | – | – | – | – | 30,192 |
| (12,428,490) | – | – | – | – | 11,280,000 | – | – |
| (21,354,958) | – | – | – | – | 11,280,000 | – | (5,343,804) |
| 5,592,121 | 9,396,542 | 78,743 | 18,941,705 | 36,554 | 100,000,003 | 150,529 | 203,698,676 |

# Statement of Cash Flows

| *For the year ended December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| **Profit before income tax** | | | 24,505,038 | 32,957,324 | 22,598,385 | 32,001,203 |
| **Adjustments for:** | | | | | | |
| Non-cash items included in profit before tax | 63 | 356 | 91,299,070 | 30,473,593 | 90,747,133 | 30,013,192 |
| Change in operating assets | 64 | 357 | (463,345,077) | (230,261,220) | (424,402,972) | (221,556,713) |
| Change in operating liabilities | 65 | 357 | 430,778,836 | 208,070,200 | 396,536,876 | 200,391,382 |
| (Gains)/losses on sale of property, plant and equipment | 17 | 276 | (20,118) | (4,054) | (10,868) | (5,164) |
| Share of (profit)/loss of associate, net of tax | 37.1 | 306 | 3,727 | (1,896) | – | – |
| Dividends received from investments in associate and subsidiaries | 17 | 276 | – | – | (109,600) | (105,911) |
| Interest expense on subordinated liabilities | 13.2 | 273 | 4,843,571 | 3,398,554 | 4,843,571 | 3,398,554 |
| Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations | 55.4 | 343 | 18,347,815 | 1,278,891 | 14,876,983 | 1,152,856 |
| Benefits paid on defined benefit plans | | | (780,828) | (1,116,195) | (765,208) | (1,107,421) |
| Income tax paid | 47 | 327 | (11,143,271) | (8,963,620) | (10,643,395) | (8,660,823) |
| Surcharge tax paid | | | (5,216,574) | – | (5,036,184) | – |
| **Net cash from/(used in) operating activities** | | | 89,272,189 | 35,831,577 | 88,634,721 | 35,521,155 |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | 38.1 to 38.4 | 308 to 312 | (3,370,339) | (1,034,299) | (3,144,592) | (922,623) |
| Proceeds from sale of property, plant and equipment | | | 47,856 | 49,463 | 12,132 | 14,335 |
| Purchase of financial investments | | | (1,200,000) | (5,607,000) | (1,200,000) | (5,607,000) |
| Proceeds from sale and maturity of financial investments | | | 952,369 | 484,800 | 952,369 | 484,800 |
| Purchase of intangible assets | 40.1 & 40.2 | 322 | (2,224,915) | (810,454) | (2,218,024) | (768,047) |
| Dividends received from investments in associate and subsidiaries | 17 | 276 | – | – | 109,600 | 105,911 |
| **Net cash from/(used in) investing activities** | | | (5,795,029) | (6,917,490) | (5,488,515) | (6,692,624) |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from issue of ordinary voting shares under employee share option plans | 51 | 338 | – | 40,866 | – | 40,866 |
| Proceeds from issue of subordinated liabilities | 50 | 336 | 10,000,000 | 8,595,470 | 10,000,000 | 8,595,470 |
| Redemption of subordinated liabilities | 50 | 336 | – | (9,502,140) | – | (9,502,140) |
| Interest paid on subordinated liabilities | | | (4,283,280) | (3,422,766) | (4,283,280) | (3,422,766) |
| Payment of lease liabilities/advance payment of right-of-use assets | | | (2,055,498) | (1,366,628) | (2,197,452) | (1,548,914) |
| Dividend paid to non-controlling interest | 56 | 344 | (14,365) | (15,168) | – | – |
| Dividend paid to shareholders | | | (5,343,490) | (5,159,000) | (5,343,804) | (5,159,284) |
| **Net cash from/(used in) financing activities** | | | (1,696,633) | (10,829,366) | (1,824,536) | (10,996,768) |
| Net increase/(decrease) in cash and cash equivalents | | | 81,780,527 | 18,084,721 | 81,321,670 | 17,831,763 |
| Cash and cash equivalents as at January 01, | | | 69,342,992 | 51,258,271 | 68,085,631 | 50,253,868 |
| **Gross cash and cash equivalents as at December 31,** | 28 | 290 | 151,123,519 | 69,342,992 | 149,407,301 | 68,085,631 |
| Less: Impairment charges on cash and cash equivalents | 28.1 | 290 | (14,029) | (7,613) | (13,690) | (7,555) |
| **Cash and cash equivalents as per Statement of Financial Position** | 28 | 290 | 151,109,490 | 69,335,379 | 149,393,611 | 68,078,076 |

The Notes appearing on pages 249 to 386 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. Reporting Entity

### 1.1. Corporate information

Commercial Bank of Ceylon PLC (the "Bank") is a public limited liability company listed on the Colombo Stock Exchange (CSE), incorporated on June 25, 1969 under the Companies Ordinance No. 51 of 1938, and domiciled in Sri Lanka. It is a licensed commercial bank regulated under the Banking Act No. 30 of 1988 and amendments thereto (Banking Act). The Bank was re-registered under the Companies Act No. 07 of 2007 on January 23, 2008, under the Company Registration No. PQ 116. The registered office of the Bank is situated at "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka.

The ordinary shares of the Bank (both Ordinary Voting and Non-Voting shares) have a primary listing on the CSE. The unsecured subordinated debentures of the Bank are also listed on the CSE.

The staff strength of the Group and the Bank was as follows:

| *As at December 31,* | 2022 | 2021 |
|---|---|---|
| Group | 5,749 | 5,660 |
| Bank | 5,121 | 5,072 |

Corporate information is presented in the inner back cover of this Annual Report.

### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended December 31, 2022, comprise the Bank (Parent Company) and its Subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in its Associate.

The Bank does not have an identifiable parent of its own. The Bank is the Ultimate Parent of the Group.

### 1.3 Principal business activities, nature of operations of the Group and ownership by the Bank in its subsidiaries and associate

Figure 30: **Group structure**

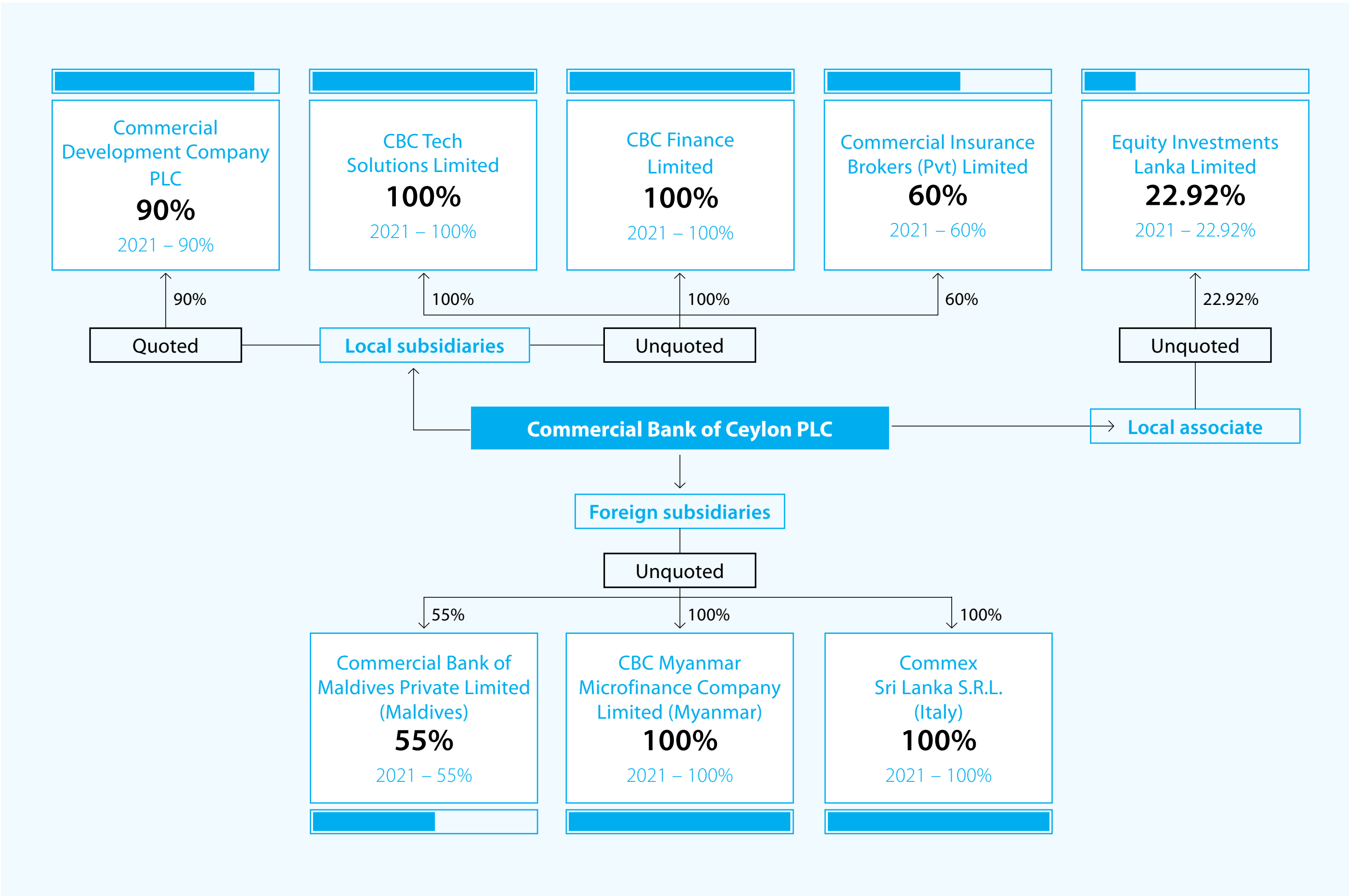



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Table – 60: **Principal business activities and nature of business operations of the Group**

| Entity | Principal business activities |
|---|---|
| Commercial Bank of Ceylon PLC | Banking and related activities such as accepting deposits, personal banking, trade financing, offshore banking, RFC and NRFC operations, travel-related services, corporate and retail credit, syndicated financing, project financing, investment banking, development banking, lease and hire purchase, rural credit, issuing of local and international debit and credit cards, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury-related products, salary remittance package, bullion trading, export and domestic factoring, pawning, margin trading, digital banking services, bancassurance and Islamic banking products and services etc. |
| **Local subsidiaries** | |
| Commercial Development Company PLC (CDC) | Property development, related ancillary services and providing manpower needs for various support services which are unrelated to providing core banking services to the customers of the Bank (Parent). |
| CBC Tech Solutions Limited | Providing Information and Communication Technology (ICT) related products, services and solutions to the corporate sector. |
| CBC Finance Limited | Granting of lease facilities, hire purchase, mortgage loans and other credit facilities and accepting deposits. |
| Commercial Insurance Brokers (Pvt) Limited (CIB) | Providing professional service and handling all insurance portfolios of individuals as well as many leading and reputed organisations in Sri Lanka engaged in diverse business activities. |
| **Foreign subsidiaries** | |
| Commercial Bank of Maldives Private Limited (CBM) | Offering of an extensive range of banking and related financial services such as accepting deposits, retail banking, trade financing, corporate and retail credit, project financing, development banking, tele-banking, internet banking, mobile banking, money remittance facilities, dealing in Government Securities and treasury-related products etc. |
| CBC Myanmar Microfinance Company Limited | Operating as a non-deposit taking microfinance institution throughout Myanmar providing micro financial services to the lower segment of the market, and to engage in all activities reasonably allowed by the Microfinance Supervisory Authority of Myanmar. |
| Commex Sri Lanka S.R.L-Italy (Commex) | Operated as an agent to the Bank (Parent) for opening accounts, providing money transfer services, issuance and encashment of foreign currencies and travellers cheques, collecting applications for credit facilities and handling of ATM cards etc. (The Company is under voluntary liquidation and the Bank has made an announcement to the CSE to that effect) |
| **Local associate** | |
| Equity Investments Lanka Limited | Project financing in the form of equity, quasi equity and other corporate debt instruments of new and existing ventures in Sri Lanka. |

## 2. Basis of Accounting

### 2.1 Statement of compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Bank, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto (Companies Act) and the Banking Act and provide appropriate disclosures as required by the Listing Rules of the CSE. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

These SLFRSs and LKASs are available at the website of CA Sri Lanka – *www.casrilanka.com.*

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

Details of the Group's Significant Accounting Policies followed during the year are given in Notes 6 to 10 on pages 259 to 271.

The formats used in the preparation and presentation of the Financial Statements and the disclosures made therein also comply with the specified formats prescribed by the CBSL in the Circular No. 02 of 2019 dated January 18, 2019, on "Publication of Annual and Quarterly Financial Statements and Other Disclosures by Licensed Banks". The Bank also published annual and quarterly financial information and other disclosures in the Annual Report, Press and the Website in compliance with Section 4.2 of the aforementioned Circular.

### 2.2 Responsibility for Financial Statements

The Board of Directors of the Bank is responsible for the preparation and presentation of the Financial Statements of the Group and the Bank as per the provisions of the Companies Act and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility for Financial Statements as set out in the "Annual Report of the Board of Directors", "Statement of Directors' Responsibility for Financial Reporting" and the certification on the Statement of Financial Position on pages 3, 195 and 239, respectively.

These Financial Statements include the following components:

- Income Statement and a Statement of Profit or Loss and Other Comprehensive Income (OCI) – which provides the information on the financial performance of the Group and the Bank for the year under review. Refer pages 237 and 238;
- Statement of Financial Position (SOFP) – which provides the information on the financial position of the Group and the Bank as at the year end. Refer page 239;
- Statement of Changes in Equity – which depicts all changes in shareholders' funds during the year under review of the Group and the Bank. Refer pages 242 to 247;
- Statement of Cash Flows – which provides the information to the users, on the ability of the Group and the Bank to generate cash and cash equivalents and utilisation of those cash flows. Refer page 248;
- Notes to the Financial Statements comprising Significant Accounting Policies and other explanatory information. Refer pages 249 to 386.

## 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Group and the Bank for the year ended December 31, 2022 (including comparatives for 2021), were approved and authorised for issue by the Board of Directors in accordance with Resolution of the Directors on February 24, 2023 (The Financial Statements of the Group and the Bank for the year ended December 31, 2021, were approved and authorised for issue by the Board of Directors on February 25, 2022).

## 2.4 Basis of measurement

The Financial Statements of the Group have been prepared on the historical cost basis except for the following material items stated in the SOFP.

Table – 61: **Basis of measurement**

| Items | Basis of measurement | Note Number/s | Page/s |
|---|---|---|---|
| Financial instruments measured at fair value through profit or loss including derivative financial instruments | Fair value | 31, 32 and 44 | 292, 293 and 325 |
| Financial assets measured at fair value through other comprehensive income | Fair value | 35 | 302 |
| Land and buildings | Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation | 38 | 307 |
| Investment property | Measured at cost at the time of acquisition and subsequently at Fair value. | 39 | 319 |
| Defined benefit obligation | Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost, and unrecognised actuarial losses | 48 | 327 |
| Equity settled share-based payment arrangements | Fair value on grant date | 52 | 338 |

## 2.5 Going concern basis of accounting

The 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 making this assessment, the Bank has considered the impact of climate-related matters on their going concern assessment.

Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

Given the continued unpredictability of the impact of the COVID-19 outbreak, the management took into consideration the existing and anticipated effects of the pandemic on the Group's activities based on all available information about the future that was obtained after the reporting date, up until the date on which the financial statements are issued. Subsequent to the outbreak of COVID-19, the Group has strictly adhered to the guidelines and directions issued by both the Governments and Central Banks in the countries that we operate when conducting its business operations. Further, the Group has provided reliefs for the affected businesses and individuals in line with the directions issued by the Governments and Central Banks in the countries that we operate. These relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges. Considering a wide range of factors including history of profitable operations, strong liquidity positions and the availability of stable external funding sources, diversified lending profile and the initiatives taken to strengthen risk monitoring at borrower level, the Management is satisfied that the going concern basis is appropriate.

## 2.6 Functional and presentation currency

Items included in these Financial Statements are measured using the currency of the primary economic environment in which the Bank operates (the functional currency).

Each entity in the Group determines its own functional currency and items included in the Financial Statements of these entities are measured using that functional currency. There was no change in the Group's presentation and functional currency during the year under review.

These Financial Statements are presented in Sri Lankan Rupees, the Group's functional and presentation currency.

The information presented in US Dollars in Annex 8 in the section on "Supplementary Information" on pages 442 and 443 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

### 2.7 Presentation of Financial Statements

The assets and liabilities of the Group presented in the SOFP are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

No adjustments have been made for inflationary factors affecting the Financial Statements.

An analysis on recovery or settlement within 12 months and more than 12 months from the reporting date is presented in Note 60 on pages 348 and 349.

### 2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" (LKAS 1).

### 2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the SOFP, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by an Accounting Standard or Interpretation (issued by the IFRS Interpretations Committee and Standard Interpretations Committee) and as specifically disclosed in the Significant Accounting Policies of the Bank.

### 2.10 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the LKAS 1 and amendments to the LKAS 1 on "Disclosure Initiative" which was effective from January 01, 2016.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Bank. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

### 2.11 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

### 2.12 Use of significant accounting judgements and assumptions and estimates

In preparing the Financial Statements of the Group in conformity with SLFRSs and LKASs, the Management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

The Group considered the impact of COVID-19 in preparing the Financial Statements in line with the circulars and guidelines issued by the CBSL and CA Sri Lanka. While the specific areas of judgement may not change, continued uncertainty surrounding economic activities, and the limited experience of the economic and financial impacts of such events, application of further judgements and changes to estimates in the measurement of Group's assets were made where applicable.

Significant areas of critical judgements, assumptions and estimation uncertainty, in applying the Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Group are as follows:

**A. Significant Accounting Judgements**

Information about judgements made in applying the Accounting Policies that have most significant effects on the amounts recognised in these Financial Statements is included in Notes 2.12.1 to 2.12.3 below.

#### 2.12.1 Determination of control over investees

Management applies its judgement to determine whether the control indicators set out in Note 36 on page 304 indicates that the Group controls the investees.

#### 2.12.2 Classification of financial assets and liabilities

The Significant Accounting Policies of the Group provides scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL) based on the following criteria;

- The entity's business model for managing the financial assets as set out in Note 7.1.3.1 on page 261.
- The contractual cash flow characteristics of the financial assets as set out in Note 7.1.3.2 on page 261.

#### 2.12.3 Classification of investment property

Management uses its judgement to determine whether a property qualifies as an investment property. A property that is held either to earn rental income or for capital appreciation or both and thus generates cash flows largely independently of the other assets held by the Group are classified as Investment Property. On the other hand, a property used in the production or supply of goods and services or for administrative purposes and thus generates cash flows that are attributable not only to that property but also to other assets used in the production or supply process are classified as property, plant and equipment. The Group assesses on an annual basis, the accounting classification of its investment properties, taking into consideration the current use of such properties.

**B. Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.12.4 to 2.12.13 below.

#### 2.12.4 Fair value of financial instruments

The fair values of financial assets and financial liabilities recognised on the SOFP, for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. Methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 27 on pages 286 to 290.

#### 2.12.5 Impairment losses on financial assets

The measurement of impairment losses across the categories of financial assets under Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments" (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

Accordingly, the Group reviews its individually significant loans and advances portfolio at each reporting date to assess whether an impairment loss should be recognised in the Income Statement. In particular, the Management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable. These estimates are based on assumptions about a number of factors and hence actual results may differ, resulting in future changes to the impairment allowance made.

A collective impairment provision is established for:

- groups of homogeneous loans and advances that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group's Expected Credit Loss (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 Group's ECL models that are considered accounting judgements and estimates include:

- Criteria for qualitatively assessing whether there has been a significant increase in credit risk (SICR) and if so allowances for financial assets measured on a Life Time Expected Credit Loss (LTECL) basis.
- Segmentation of financial assets when their ECL is assessed on a collective basis.
- Various statistical formulas and the choice of inputs used in the development of ECL models,
- Associations between macroeconomic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect of these inputs on Probability of Default (PDs), Loss Given Default (LGD) and Exposure At Default (EAD).
- Forward-looking macroeconomic scenarios and their probability weightings.

As such, the accuracy of the impairment provision depends on the model assumptions and parameters used in determining the ECL calculations.

The Bank has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to the COVID-19 pandemic in line with the directions issued by the CBSL. Utilisation of a payment deferral programme does not, all else being equal, automatically trigger a SICR. As such, key issue will be to distinguish between cases where the payment holidays provide relief from short-term liquidity constraints impacting the borrower that do not amount to a SICR. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgements in the assessment of the impact of the COVID-19 outbreak on the loans and advances portfolio of the Group, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures including concessionary financing and payment moratorium. The impact of the outbreak has been assessed and adjusted in these Financial Statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and CA Sri Lanka.

In response to the COVID-19 outbreak and the Group's expectations of economic impacts due to uncertainties, key assumptions used in the Group's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 pandemic and the economic uncertainties have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts in the economy. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to any possible adverse scenarios, the fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have remained consistent with prior periods.

Accordingly, the Bank took steps to identify the customers showing distress signs in identifying SICR under the individual impairment assessment. Under the collective assessment, customers operating in risk elevated industries including tourism and hospitality, few selected personal loan categories, export, industrial and transportation subsectors, construction, and infrastructure development were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as Stage 2 unless such exposures are individually significant and have specifically been identified as Stage 1 reflecting forward looking view of the economy in relation to the business.

Further, during 2022, the Bank decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macroeconomic indicators along with management overlays to qualitative indicators relating to forward looking macroeconomic environment with the objective of capturing the impact of economic uncertainties and volatilities in future outlook on the ECL computation. Furthermore, as per expert credit judgement, the Bank stressed the ECL parameters such as PDs and LGDs to reflect the real economic scenario that is not reflected due to the deferrals and concessions granted due to COVID-19 outbreak and economic uncertainties, in addition to providing adequate provisions considering the riskiness of those customers who have been granted concessions.

Early observations of payment behaviour of expiries for this year were considered in the assessment of the changes in the risk of default occurring over the expected life of a financial instrument when determining staging and is a key input in determining migration.

Refer Note 18 on page 276 for details.

### 2.12.6 Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for an asset or a cash generating unit (CGU) at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the value in use (VIU) of such individual assets or the CGUs. Estimating VIU requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant future cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty.

Refer Note 7.6 on page 267 for details.

### 2.12.7 Revaluation of property, plant and equipment

The Group measures land and buildings at revalued amounts with changes in fair value being recognised in equity through OCI. The Group engages independent professional valuers to assess fair value of land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on "Fair Value Measurement" (SLFRS 13). The key assumptions used to determine the fair value of the land and building and sensitivity analyses are provided in Notes 38.5 (b) and 38.5 (c) on pages 313 to 318.

#### 2.12.8 Useful lifetime 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. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Refer Note 20 on page 280.

#### 2.12.9 Fair valuation of investment property

Fair valuation of the investment property is ascertained by independent valuations carried out by chartered valuation surveyors, who have recent experience in valuing properties at similar locations and categories. They have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The key assumptions used to determine the fair value of investment property are provided in detail in Note 39 on page 319.

#### 2.12.10 SLFRS 16 – leases

##### 2.12.10.1 Determination of the lease term for lease contracts with renewal and termination options (Group as a lessee)

The Group 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 Group has several lease contracts that include extension and termination options. The Group 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 option. After the commencement date, the Group 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 (e.g. construction of significant leasehold improvements or significant customisation of the leased asset).

##### 2.12.10.2 Estimating the incremental borrowing rate

As the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the Group 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 Group "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 Group estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

#### 2.12.11 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available and can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer Note 41 on page 322 for details.

#### 2.12.12 Defined benefit obligation

The costs of the defined benefit plans are determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, future pension increase, etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The Bank generally uses the long-term treasury bond rate as the discount rate for the purpose of assessing the present value of future obligations. The treasury bond rates increased significantly during the year and were around 30% range during the latter part of 2022. As per the "Frequently Asked Questions (FAQs) on Use of Discount rate under the uncertain Economic Conditions" issued by the CA Sri Lanka, an adjusted treasury bond rate can be considered as the discount rate for the purpose of the actuarial valuations as at December 31, 2022, on the basis that the current treasury bond rates do not reflect only the time value of money. Accordingly, an adjusted discount rate of 18% was derived by removing a credit spread from the current treasury bond rate.

Refer Note 48 on pages 327 to 335 for the assumptions used.

#### 2.12.13 Impact of climate risk

The Group and its customers are exposed to the physical risks from climate change and risks of transitioning to a net-zero economy. Most climate-related physical risks are expected to manifest over a term that is generally longer than the maturity of most of the outstanding exposures. The following balances may be impacted by physical and transition risks:

*ECL:* Customers and portfolios with exposure to climate risk may have a resultant deterioration in creditworthiness, which has an impact on ECL. On the whole, the Group is of the view that the counterparties who have exposures to climate risk are not expected to be materially impacted by physical or transition risks associated with climate change. For example, the majority of the counterparties are not employed, or do not operate, in high-risk sectors, nor are they located in high risk geographical areas. It was also noted that for a significant part of the portfolio, the time horizon for any physical impact of climate risk is longer than the maturity of most of the assets as described in Note 60 on page 348.

*Fair value measurement:* The Bank has assumed that any climate change variables incorporated in fair value measurement are those that market participants would consider when pricing the asset or liability, in line with SLFRS 13. The Bank has concluded that climate risk has been adequately reflected within the fair value.

#### 2.12.14 Provisions for liabilities, commitments and contingencies

The Group receives legal claims in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due processes in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgements in applying Accounting Policies other than those stated above that have significant effects on the amounts recognised in the Consolidated Financial Statements are described in Notes 7.10 to 7.15 on page 269.

### 2.13 Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 68 on page 386, where necessary.

## 3. Financial Risk Management

### 3.1 Introduction and overview

Like any other business model, risk is inherent in the Bank's activities too and attempts to manage through a process of ongoing identification, measurement and monitoring, subject to risk limits and

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controls are adopted to mitigate possible consequences arising out of volatile and fluid outcomes in the internal and external environment.

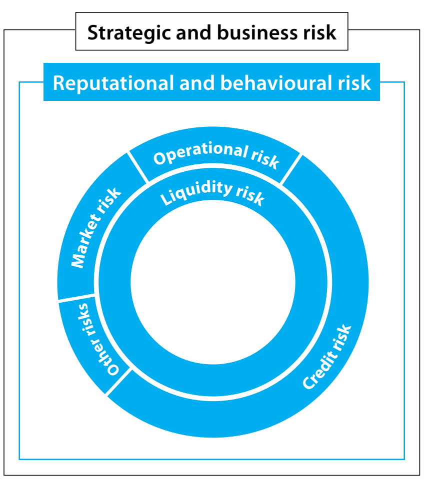
The process of risk management is identified as critical to maintain Bank's continuing profitability. Managing the changing stakeholder dynamics whilst preserving culture and value system of the Bank is considered as a priority in the business operation.

The Group has exposure mainly to the following broad risk categories arising out of its business activities that are undertaken in its day to day functions:

- Strategic and business risk;
- Credit risk;
- Reputational risk;
- Liquidity risk;
- Market risk;
- Operational risk;
- Conduct risk;
- Social and environmental risk.

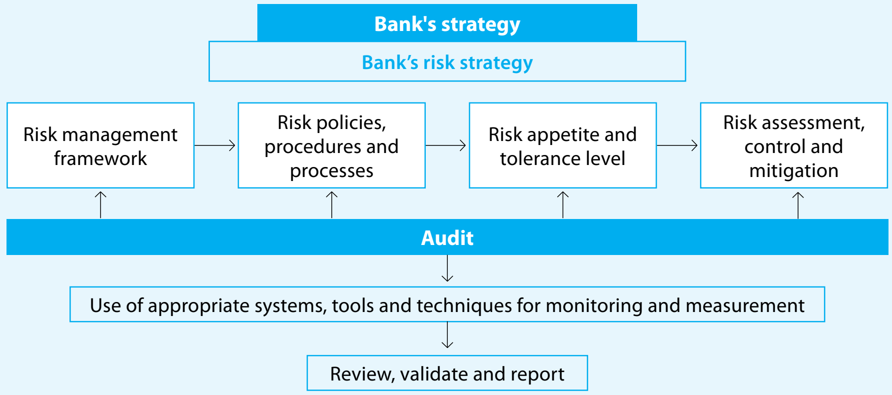
Amidst an environment where the country is wading through socio-political-economical bog land filled with uncertainty and possible pit falls in 2022. The global economy is getting ready for a recession in 2023. Unprecedented elevated levels of risk in the business environment and the nuances and correlations associated with different key risk categories acted as major challenges in this continuously evolving risk universe which is going through a constant state of flux.

Figure – 31: **Types of risk**




## 3.2 Bank's risk management framework

Figure – 32: **Risk Management Framework**




The Board of Directors of the Bank has the overall responsibility for the establishment and oversight of the Bank's Risk Management Framework.

The Risk Management Framework of the Bank translates overall risk appetite on business activities in a holistic approach to provide the guidance required for convergence of strategic and risk perspectives of the Bank.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls to monitor risks and adherence to limits. The Risk Management Policy Framework constitutes the Credit Policy, Lending Guidelines, Credit Risk Review Policy, ALM Policy including Contingency Funding Plan, Foreign Exchange Policy, Operational Risk Policy, IT Risk Policy, Market Risk Policy, Stress Testing Policy, Financial & Risk Management Disclosure Policy, Conduct Risk Management Policy, Group Social and Environmental Policy and Reputational Risk Management Policy etc., which have been firmly established to provide control and guidance for decision-making throughout the Bank in a uniform manner.

The Committee structure embedded to the Risk Management Framework acts as a fact finding and decision-making authority through deliberations and arriving at consensus arising out of multiple points of views. The Risk Management Committees effectively deliberate on matters at hand to provide guidance to the business lines with a view to managing risk in accordance with the strategic goals and risk appetite of the Bank.

The Board of Directors of the Bank has formed the Board Integrated Risk Management Committee (BIRMC) as a mandatory Board Committee, as per Banking Act Direction No. 11 of 2007 on Corporate Governance. The performance of the Committee and the duties and roles of members are reviewed by the Board annually or more frequently, if warranted.

The meetings of the Executive Integrated Risk Management Committee (EIRMC) are conducted on a monthly basis to discuss Credit, Operational, Market, IT and Social and Environmental risk matters of the Bank. Assets and Liabilities Committee (ALCO), that convene at least once a fortnight, gives priority for liquidity, funding and profitability in line with the changes taken place in the market.

Risk Control Self-Assessment (RCSA) framework is adopted to identify risks involved in business activities of the Bank and to implement appropriate risk mitigatory measures after assessing criticality of such risks. The Integrated Risk Management Department (IRMD) carries out semi-annual Bank-wide RCSA exercise focusing on adherence to laws, regulations, and regulatory guidelines as well as internal controls and approved policies.

Further, the Internal Audit function of the Bank independently monitors and evaluates the risk management function of the Bank and provides its views on the adequacy of the Risk Management Framework to the Board Audit Committee (BAC).

### Strategic and business risk

Bank's inability to keep up with the evolving market dynamics, resulting in loss of market share and failure to achieve strategic goals in line with its Vision and Mission is identified as Strategic risk.

Business risk refers to any risk that arises from the Bank's long-term business strategies and affects its profitability, and relatively short term in nature.

### Management of strategic and business risk

Corporate planning and budgeting process and continuous evaluation of their alignment with the Bank's Vision, Mission and the risk appetite facilitate management of strategic risk. In the annual Internal Capital Adequacy Assessment Process (ICAPP) exercise of the Bank, detailed scorecard-based qualitative models are used to measure and monitor strategic risk of the Bank. This scorecard-based approach takes a number of variables into account, including the size and sophistication level of the Bank, the nature and complexity of its operations and highlights the areas that require focus to mitigate potential strategic risks.

Business risk of the Bank is managed through its day to day decisions made by the line managers and also at different Management Committees in identifying, assessing and remediating such risks.

Also, in line with the Banking Act Direction No. 09 of 2021, commencing from 2022, the Bank being the largest private sector bank in the industry designated as a Domestic Systemically Important Bank (D-SIB), has developed its Recovery Plan. This plan outlines the Bank's transition from Business-As-Usual (BAU) to different degrees of elevated risk conditions, highlighting the preparedness to the recovery actions, if the financial deterioration occurs and is not rectified.

### Credit risk

The risk that the Bank will incur a loss due to its customers or counterparties failing to discharge their contractual obligations, is considered generally under the credit risk assessment.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, groups of counterparties, geographies, business sectors, and industries by monitoring exposures and possible adverse external factors in relation to such limits.

### Management of credit risk

Lending Guidelines of the Bank has been formulated based on evolving practices of lending to provide expected granularity of credit assessment and thereby, to ensure strict attention to risks emanating from lending proposals at the time of initiation, analysis, and approval. In addition, Lending Guidelines ensures objective assessment of acceptability of collateral as well as limits on exposures and concentration levels to various sectors, counterparties, geographies and segments etc.

A robust risk grading system in line with the Basel guidelines on rating of facilities and counterparties is adopted by the Bank for evaluation of credit proposals. This risk grading framework consists of 10 grades of gradually escalating continuum of risks as indicators for the Lending Officers to evaluate and arrive at suitable risk reward trade-offs in their propositions. These risk grades were validated by internationally accepted consultants and are reviewed by the IRMD regularly.

Credit Risk Review function covers over 30% of the advances portfolio of the Bank using the Loan Review Mechanism (LRM). This continuous exercise provides reasonable assurance that all major credit risks embedded in the operation of lending is carried out in line with the stipulated guidelines and within the risk appetite framework of the Bank.

Early Warning Signals (EWS) system which is currently being adopted based on Machine Learning/Regression analysing prediction model to assist Lending Officers. This will reciprocally affect in detecting problematic advances, industries whilst inversely provide insights to identify potential lending opportunities. This tool is used to maintain the quality of the Loan Book of the Bank.

Portfolio level credit risk analyses are taken up at monthly EIRMC meetings as well as quarterly at BIRMC meetings. Individual credit proposals evaluated by the Lending Officers are approved by the Authorising Officers within the hierarchy in delegated authority levels whilst ensuring a minimum of the Four Eyes Principle, when approving them. Approval levels are escalated based on delegated authority levels attached to exposure levels, final risk ratings, changes of risk appetite for specific industries as well as negative deviation of performance levels as compared to previous facilities extended to borrowers.

The Executive Credit Committee (ECC) and the Board Credit Committee (BCC) are responsible for approving credit facilities with high value while the Board will be the ultimate authority for approving facilities exceeding predetermined threshold levels. Deliberations take place at the BCC level on facilities being considered for approval beyond the specified threshold and recommendations for approval of the Board are made based on quantum of exposures at various levels.

The IRMD provides risk approval for individual proposals above predetermined threshold levels, consequent to a rigorous independent risk evaluation guided by Credit Policy, Lending Guidelines, and circular instructions within a limit framework stemming from risk appetite of the Bank.

Across the globe, banks are intensifying their approach towards early recognition of impaired credit assets and thereby, taking proactive efforts in readying their institutions to encounter possible economic downturns. Most regulators of the banking sector around the world expect the financial institutions in their markets to implement robust credit risk estimation models and align the decision-making process based on such robust models. Forward looking impairment provision approach is significantly different from the traditional approach of providing for Incurred Loss Assets. The Expected Credit Loss (ECL) model introduced under the SLFRS 9 replaced the Incurred Loss Model, which was considered inadequate in recognising credit losses in a proactive manner and had failed in accurately estimating the credit losses during economic stress conditions. Accordingly, the Bank also had duly adopted the ECL modelling in impairment computations. IRMD involves in Independent oversight on Individually Significant Loans (ISLs) to improve accuracy of cash flow projections bringing in a more robust and specific approach to the classification, recognition and measurement of credit facilities. Also the CBSL had issued the Banking Act Direction No. 13 of 2021, which spells out clear procedures to be adopted by banks in impairment computations.

Commencing from January 01, 2022, IRMD has been entrusted with the responsibility of objective assessment of credit facilities for upgrading purpose as per the provisions of the Banking Act Direction No. 13 of 2021. Accordingly, models used for calculation of impairment would be evaluated/ recommended by the IRMD under the specific supervision of the Chief Risk Officer. Upgrading of restructured and rescheduled credit facilities shall only be carried out by the IRMD and shall be independent from the credit facility review mechanism.

### Social and environmental risk

Impending negative consequences to the Bank that arise from impacts or perceived impacts on the natural environment or communities of people through the Bank's lending activities are identified as of paramount importance for the Bank as the risk arising from such can lead to multitude of other risks.

Social and Environmental (S&E) risks typically include environmental pollution, hazards to human health, safety and security, impacts on communities and threats to a region's biodiversity and cultural heritage. Failure to effectively manage Social and Environmental issues affecting the Bank, can lead to a range of financial, legal and reputational consequences.

The Bank manages its exposure to Social and Environmental risks through a Social and Environmental Management System (SEMS) which includes the policies, procedures, assessment tools and human resources allocated for the management and appraisal of Social and Environmental Risks.

### Management of social and environmental risk

As an integral part of the credit risk management, the Bank manages the Social and Environmental risks of lending activities.

The Bank's SEMS framework is based on the IFC Performance Standards where each lending facility extended by the Bank is screened and categorised based on their Social and Environmental Risk intensity.

Social and Environmental Due Diligences exercises are carried out as and when required and corrective actions are proposed for the identified Significant Social and Environmental Risks in line with the relevant policies and guidelines. Performance of the borrowers monitored periodically to ensure the implementation of S&E corrective actions and continuously complying with the Country's S&E regulations.

The Bank also has a well-defined decision-making process, duly described roles and responsibilities as well as documentation and record keeping requirements in relation to SEMS.

### Liquidity risk

The risk that the Bank will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset is focused on this risk domain. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations or not receiving what is due to the Bank when they fall due under both normal and stress circumstances.

To limit this risk, Management has arranged diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has reviewed and strengthened its internal control processes and contingency plans for managing liquidity risk.

### Management of liquidity risk

Market Risk Management Policy and the ALM Policy of the Bank approved by the Board of Directors set the tone for managing liquidity risk of the Bank. Liquidity risk of the Bank is given utmost priority when managing a wide range of other risks because it is considered as the most critical risk for any financial institution.

The Bank's Treasury Department is entrusted with managing liquidity of the Bank on a real time basis to ensure smooth functioning of business activities of all other business units of the Bank. Additionally, a team of members of the Corporate Management level, most of them being ALCO members, carefully analyse the foreign currency liquidity position of the Bank taking into consideration, both short term and medium term cash flow gaps, more frequently.

Access to a substantial stable Current Account and Savings Account (CASA) base due to its wide branch network and the top of the mind perception created among the depositors, provide immense strength to the Bank in managing liquidity. Also, the growing balance sheet size, higher rating and continuous rapport maintained with local and international counterparty banks have helped immensely to the Bank to maintain adequate foreign currency liquidity amidst stressed Market conditions.

Having an adequate buffer of High Quality Liquid Assets (HQLA) at the disposal of the Bank is another plus factor for the Bank. The strength of such portfolio is amply reflected in the Basel III computation the Bank carries out for arriving at Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as per the CBSL Direction, which recorded very healthy results as compared to regulatory minimum threshold levels.

Amidst the challenging economic conditions experienced by the country since the Easter Sunday terrorist attack and COVID-19 pandemic, which triggered the default of country's foreign debt repayment in 2022, an assessment of expected foreign currency cash inflows and outflows has been carried out by the Bank to assure smooth functioning of its business activities.

The Bank has experienced accumulation of rupee liquidity above the minimum regulatory requirements as a result of sluggish economic performance of the country since 2020. However, having adopted many strategies to invest excess liquidity at optimum yields but in staggered maturities and thereby to minimise the negative impact on the bottom line as well as liquidity, the bank is mindful about the excessive exposure to the Government by way of the Government Securities.

Contingency funding plans are in force, constant monitoring of salient liquidity ratios and scenario-based stress testing being carried out regularly would enable the Bank to take proactive measures towards overcoming an adverse liquidity position that may arise on a future date.

### Market risk

The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices comes under the ambit of Market risk. The Bank classifies exposures to Market Risk into either Trading or Non-Trading portfolios (Banking Book) and manages each of those portfolios separately.

The Market risk for the Trading portfolio is monitored and managed closely having paid attention to the changes on the prices of market.

### Management of market risk

Market Risk Management Policy, ALM Policy and Foreign Exchange Risk Policy are the three main policies that constitute the framework governing the Market Risk Management function of the Bank. Due to the business model adopted by the Bank, exposure to equity and commodity risk was kept at bay throughout the year.

However, Interest Rate Risk arising from the Banking Book as well as Trading Book and Foreign Exchange Risk arising from dealing in assets and liabilities denominated in currencies other than local currency, continued to expose the Bank to associated risk elements.

Escalation of the interest rates since the second half of 2021 posed challenges to the NIM as the demand for advances had not risen up since the COVID-19 period and the adverse economic conditions that prevailed in the country subsequently.

Interest rates of the Banking Book is subjected to varying degrees of rate shocks to simulate and identify impact on earnings perspective in such rate scenarios. The results of such predictions could assist the Bank in formulating strategies to manage the financial position in an effective manner with the limited choices available in the local market.

Trading Book too was subjected to Value at Risk (VaR) framework internally carried out by the Bank on a regular basis. The Bank also carried out sensitivity analysis on a regular basis to ascertain the impact on portfolios maintained, mainly in Government Securities and marking to market of such portfolios to reflect fair value of underlying assets for the decision-making process.

Foreign exchange positions were maintained within the regulatory framework in a market where a high volatility is observed in the major currency, compared to the previous year that the Bank deals in, i.e., US Dollars. The positions were subjected to continuous sensitivity analysis to provide insights to possible losses arising from currency depreciation, amidst the thin Foreign Currency Reserve position of the country, as the reporting currency of the Bank being Sri Lankan Rupees.

#### Operational risk

The risk that the Bank will incur a loss due to failure of systems, human errors, frauds or external events is focused on this risk domain. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring, escalating, reporting and responding to potential risks.

Circular Instructions and Operational Risk Management Policy play a major part in bringing together business practices with accepted benchmarks to ensure minimum disruption to processes, personnel, technology and infrastructure.

Internal control framework and audit function with firmly established "three lines of defences" serve the Bank to manage operational risk at current acceptable levels.

Sound Operational Risk Management practices are embedded into the work process through the Bank's culture, internal policy framework and as per regulatory requirements.

IT Risk of the Bank is managed through strict monitoring of Key IT Risk Indicators while Vulnerability Assessment and Penetration Tests are being carried out by both internal and external parties at regular intervals to identify the relevant risks.

Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

#### Conduct risk and reputational risk

Risk that can arise as a result of mis selling, unethical business practices, professional misbehaviours, governance weaknesses etc, intend to be manage through such elaborate and intricate framework well established over decades of existence.

The risk that the Bank's reputation will be damaged by one or more than one reputation event, as reflected from negative publicity about the Bank's business practices, conduct or financial condition. Such negative publicity, whether true or not, may impair public confidence in the Bank, result in costly litigation, or lead to a decline in its customer base, business or revenue.

Management of the Conduct and Reputational risk is underpinned by a comprehensive policy framework approved by the Board of Directors.

Refer Note 66 on pages 358 to 386 for "Financial risk review".

A detailed write-up on how the risk management is carried out within the Bank's Risk Management Framework with due consideration given to factors such as governance, identification, assessment, monitoring, reporting and mitigation are discussed in the section on "Risk Governance and Management" on pages 203 to 228.

## 4. Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in Note 27 on pages 286 to 290.

## 5. Changes in Accounting Policies

The Group has consistently applied the Accounting Policies as set out in Notes 6 to 10 on pages 259 to 271 to all periods presented in these Financial Statements, except for changes arising out of amendments to accounting standards as set out below:

### 5.1 New and amended standards and interpretations

In these Financial Statements, the Group applied for the first time following amendments to Accounting Standards, which are effective for annual periods beginning on or after January 01, 2022. The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

#### 5.1.1 Amendments to LKAS 37: Onerous Contracts – Costs of Fulfilling a Contract

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g. the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Refer Note 7.11 for further details.

#### 5.1.2 Amendments to SLFRS 9: Fees in the "10%" test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial liabilities during the period.

#### 5.1.3 Amendments to LKAS 16: Property, Plant and Equipment – Proceeds before intended use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

#### 5.1.4 Amendments to SLFRS 3: Reference to the Conceptual Framework

The amendments add an exception to the recognition principle of SLFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21, if incurred separately. The exception requires entities to apply the criteria in LKAS 37 or IFRIC 21, respectively, instead of the conceptual framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to SLFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the Consolidated Financial Statements of the Group as there were no acquisitions took place during the reporting period.

#### 5.1.5 Amendments to SLFRS 1: Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences for all foreign operations using the amounts reported in the parent's Consolidated Financial Statements, based on the parent's date of transition to SLFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1. These amendments had no impact on the consolidated financial statements of the Group as it is not a first time adopter.

### Significant Accounting Policies

The Significant Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements of the Group except as specified in Note 2.11 on page 252.

These Accounting Policies have been applied consistently by the Group.

Set out below is an index of Significant Accounting Policies, the details of which are available on the pages that follow:

### Index of Significant Accounting Policies



## 6. Significant Accounting Policies – General

### 6.1 Basis of consolidation

The Group's Financial Statements comprise, Consolidated Financial Statements of the Bank and its Subsidiaries in terms of the Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" (SLFRS 10) and the proportionate share of the profit or loss and net assets of its associate in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" (LKAS 28). The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Offshore Banking Centre and the international operations of the Bank.

#### 6.1.1 Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard – SLFRS 3 on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment (Refer Note 7.6 on page 267). Any gain on a bargain purchase

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is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

#### 6.1.2 Non-Controlling Interests (NCI)

Details of NCI are given in Note 56 on page 344.

#### 6.1.3 Subsidiaries

Details of the Bank's subsidiaries, how they are accounted in the Financial Statements of the Bank and their contingencies are set out in Notes 36 and 57.4(a) on pages 304 to 305 and 346.

#### 6.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Subsequently, it is accounted for as an associate or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

#### 6.1.5 Associates

Details of the associate, how it is accounted in the Financial Statements of the investee, together with its fair values and the Group's share of contingent liabilities of the associate is set out in Notes 37 and 57.4(b) on pages 306 to 307 and 346.

#### 6.1.6 Transactions eliminated on consolidation

Intra-group balances, transactions and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 6.1.7 Material gains or losses, provisional values or error corrections

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

### 6.2 Foreign currency

#### 6.2.1 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the dates of the transactions. In this regard, the Bank's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into the functional currency at the middle exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency as at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Equity instruments measured at fair value through other comprehensive income
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedge is effective.

#### 6.2.2 Foreign currency translations

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Bank's functional currency. The Financial Statements of the Offshore Banking Centre of the Bank and the Financial Statements of the foreign operations of the Bank have been translated into the Group's presentation currency as explained under Notes 6.2.3 and 6.2.4 below.

#### 6.2.3 Transactions of the offshore banking centre

These are recorded in accordance with Note 6.2.1 above, except the application of the annual weighted average exchange rate for translation of the Income Statement and the Statement of Profit or Loss and Other Comprehensive Income. Net gains and losses are dealt through the profit or loss.

#### 6.2.4 Foreign operations

The results and financial position of foreign operations that have a functional currency different from the Bank's presentation currency are translated into the Bank's presentation currency as follows:

- Assets and liabilities, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange ruling as at the reporting date.
- Income and expenses are translated at the average exchange rate for the period, unless this average rate is not a reasonable approximation of the rate prevailing at the transaction date, in which case income and expenses are translated at the exchange rates ruling at the transaction date.
- All resulting exchange differences are recognised in the OCI and accumulated in the Foreign Currency Translation Reserve (Translation Reserve), which is a separate component of equity, except to the extent that the translation difference is allocated to the NCI.

When a foreign operation is disposed of such that the control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount of the translation reserve is reattributed to NCI.

## 7. Significant Accounting Policies – Recognition of assets and liabilities

### 7.1 Financial instruments – initial recognition, classification and subsequent measurement

#### 7.1.1 Date of recognition

The Group initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

#### 7.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Notes 7.1.3 and 7.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined in Sri Lanka Accounting Standard – SLFRS 15 on "Revenue from Contracts with Customers" (SLFRS 15).

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

Trade receivables that do not have a significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have a significant financing component) at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

##### 7.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some 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.

The "Day 1 loss" arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in "Interest income" and "Personnel expenses" over the remaining service period of the employees or tenure of the loan whichever is shorter in line with SLFRS 9 and Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits" (LKAS 19).

Refer Notes 13 and 19 on pages 272 and 280.

#### 7.1.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

##### 7.1.3.1 Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by-instrument basis because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

##### 7.1.3.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

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

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

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 principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Refer Notes 7.1.3.3 to 7.1.3.5 below for details on different types of financial assets recognised on the SOFP.

#### 7.1.3.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are given in Notes 7.1.3.3.1 to 7.1.3.3.6 below.

##### *7.1.3.3.1 Loans and advances to other customers*

Loans and advances to other customers include amounts due from loans and advances and lease receivables from the customers of the Group.

Details of "Loans and advances to other customers" are given in Note 33 on pages 296 to 300.

##### *7.1.3.3.2 Securities purchased under resale agreements (reverse repos)*

When the Group purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a financial asset in the SOFP reflecting the transaction's economic substance as a loan granted by the Group. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest income/receivable being recognised as interest income in profit or loss.

Details of "Securities purchased under resale agreements" are given in the SOFP on page 239.

##### *7.1.3.3.3 Debt and other financial instruments measured at amortised cost*

Details of "Debt and other financial instruments measured at amortised cost" are given in Note 34 on page 300.

##### *7.1.3.3.4 Cash and cash equivalents*

Details of "Cash and cash equivalents" are given in Note 28 on page 290.

##### *7.1.3.3.5 Balances with central banks*

Details of "Balances with central banks" are given in Note 29 on page 291.

##### *7.1.3.3.6 Placement with banks*

Details of "Placement with banks" are given in Note 30 on page 291.

#### 7.1.3.4 Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

For financial assets measured at FVOCI refer Notes 7.1.3.4.1 and 7.1.3.4.2.

##### *7.1.3.4.1 Debt instruments measured at FVOCI*

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and selling financial assets, where the asset's contractual cash flows represent payments that are solely payments of principal and interest on principal outstanding. Details of "Debt instruments at FVOCI" are given in Note 35 on page 302.

##### *7.1.3.4.2 Equity instruments designated at FVOCI*

Upon initial recognition, the Group elects to classify irrevocably some of its equity instruments held for strategic and regulatory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 35 on page 302.

#### 7.1.3.5 Financial assets measured at FVTPL

All financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets measured at FVTPL include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell as discussed in Notes 7.1.3.5.1 and 7.1.3.5.2 below.

##### *7.1.3.5.1 Financial assets held for trading*

Details of "Financial Assets held for trading" are given in Note 32 on pages 293 to 296.

###### *7.1.3.5.1.1 Derivatives recorded at FVTPL*

Details of "Derivative financial assets" recorded at fair value through profit or loss are given in Note 31 on page 292.

##### *7.1.3.5.2 Financial assets designated at FVTPL*

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL when such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

Financial assets designated at FVTPL are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial instruments designated at FVTPL". Interest earned is accrued in "Interest Income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

The Group has not designated any financial assets upon initial recognition as at FVTPL as at the end of the reporting period.

### 7.1.4 Classification and subsequent measurement of financial liabilities

The Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at FVTPL, and within this category as –
  - – Held-for-trading; or
  - – Designated at FVTPL;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

Refer Notes 7.1.4.1 and 7.1.4.2 as detailed below:

#### 7.1.4.1 Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Refer Notes 7.1.4.1.1 and 7.1.4.1.2 below.

##### *7.1.4.1.1 Financial liabilities held for trading*

Details of "Derivative financial liabilities" classified under financial liabilities held for trading are given in Note 44 on page 325.

##### *7.1.4.1.2 Financial liabilities designated at FVTPL*

Financial liabilities designated at FVTPL are recorded in the SOFP at fair value when;

- 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
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to entity's Key Management Personnel, or

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- The liabilities containing 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.

Changes in fair value are recorded in "Net fair value gains/ (losses) from financial instruments at FVTPL" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest paid/payable is accrued in "Interest expense", using the EIR.

The Group has not designated any financial liabilities as at FVTPL as at the end of the reporting period.

#### 7.1.4.2 Financial liabilities at amortised cost

Financial liabilities of the Group that are not measured at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Securities sold under repurchase agreements", "Due to depositors", "Other borrowings" or "Subordinated liabilities" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in profit or loss. Gains and losses too are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

##### *7.1.4.2.1 Due to banks*

Details of "Due to banks" are given in Note 43 on page 325.

##### *7.1.4.2.2 Securities sold under repurchase agreements (repos)*

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repos), the arrangement is accounted for as a financial liability in the SOFP reflecting the transaction's economic substance as a deposit. Subsequent to initial recognition, these securities are measured at amortised cost using the EIR with the corresponding interest payable being recognised as "interest expense" in profit or loss.

Details of "Securities sold under repurchase agreements (repos)" are given in the SOFP on page 239.

##### *7.1.4.2.3 Due to depositors*

Details of "Due to depositors" are given in Note 45 on pages 325.

##### *7.1.4.2.4 Other borrowings*

Details of "Other borrowings" are given in Note 46 on pages 326.

##### *7.1.4.2.5 Subordinated liabilities*

Details of "Subordinated liabilities" are given in Note 50 on pages 336.

### 7.1.5 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivatives held for risk management purposes are measured at fair value in the SOFP.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in fair value or cash flow of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% to 125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group currently uses cash flow hedging relationships for risk management purposes. Different types of hedges and derivatives are discussed in Notes 7.1.5.1 to 7.1.5.5 below:

#### 7.1.5.1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss in the same line item as the hedged item that is attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

#### 7.1.5.2 Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect the profit or loss, the effective portion of changes in the fair value of the derivative are recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the Statement of Profit or Loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those are necessary for the novation, then the derivative is not considered as expired or terminated.

Details of "Cash flow hedges" are given in Note 44.1 on page 325.

#### 7.1.5.3 Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

#### 7.1.5.4 Other non-trading derivatives

If the derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

#### 7.1.5.5 Embedded derivatives

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to 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. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives may be embedded in another contractual arrangement (a host contract). The Group treats derivatives embedded in financial liabilities and non-financial host contracts as separate derivatives, if:

- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the SOFP together with the host contract. Derivatives embedded in financial assets are classified based on the business model and their contractual terms and are not separated as explained in Notes 7.1.3.1 and 7.1.3.2 on page 261.

### 7.1.6 Reclassification of financial assets and liabilities

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Group changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

During the year, the Bank reclassified bulk of its treasury bond portfolio, majority of Sri Lanka Development Bond (SLDB) and entire Sri Lanka Sovereign Bond (SLSB) portfolio in FVOCI category to amortised cost category, with effect from April 01, 2022, as a result of changes to the business model of managing the assets due to unprecedented changes in the macroeconomic conditions in line with the guidelines issued by the CA Sri Lanka in the form of a Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio as a one off option. Refer Note 35.1 on page 303 for further details.

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

#### 7.1.6.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

#### 7.1.6.2 Measurement of reclassification of financial assets

##### *7.1.6.2.1 Reclassification of Financial Instruments at "FVTPL"*

- To FVOCI

  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in OCI.

- To Amortised Cost

  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

##### *7.1.6.2.2 Reclassification of Financial Instruments at "FVOCI"*

- To FVTPL

  The accumulated balance in OCI is reclassified to profit or loss on the reclassification date.

- To Amortised Cost

  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

##### *7.1.6.2.3 Reclassification of Financial Instruments at "Amortised Cost"*

- To FVOCI

  The asset is remeasured to fair value, with any difference being recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- To FVTPL

  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit or loss.

### 7.1.7 Derecognition of financial assets and financial liabilities

#### 7.1.7.1 Financial assets

The Group derecognises a financial asset (or where applicable a part of thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

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Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Group retains all or substantially all risks and rewards of ownership of such assets.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

#### 7.1.7.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

### 7.1.8 Modification of financial assets and financial liabilities

#### 7.1.8.1 Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using a pre modification interest rate. In other cases, it is presented as interest income.

As per Circular No. 2 of 2022 issued by CBSL dated July 07, 2022, the Bank granted appropriate concessions modifying the original contract to the eligible customers affected by extraordinary macroeconomic circumstances in various economic sectors on a case-by-case basis for a period of six months from the date of the circular. In the case of regular instalment loans, the CBSL directed the banks to devise a mechanism to structure the repayment plan not exceeding the contracted instalment value of the existing credit facility with an extended tenure, to match with the repayment capabilities of the customers. For other credit facilities, the banks were required to devise a suitable mechanism to structure the repayment plan. In the case of rupee facilities considered for the concession, the interest rate applicable for concessionary period was limited to the higher of latest contractual interest rate and the Standard Lending Facility Rate applicable on the date of the circular i.e. 15.5%. In the case of foreign currency facilities, the banks were allowed to charge mutually agreed concessionary interest rate with the customer.

Modifications to the original terms and conditions of the loans due to the above concessions, did not result in derecognition of the original loans as the Management concluded that the modifications were not substantial. Accordingly, a modification loss has been recognised under interest income.

#### 7.1.8.2 Modification of financial liabilities

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. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

### 7.1.9 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### 7.1.10 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any ECL allowance.

### 7.1.11 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Notes 4 and 27 on pages 258 and 286.

### 7.1.12 Identification and measurement of impairment of financial assets

#### 7.1.12.1 Overview of the ECL principles

The Group records an allowance for ECL for loans and advances to other customers, debt and other financial instruments measured at amortised cost, debt instruments measured at FVOCI, any other financial assets measured at amortised cost, loan commitments and financial guarantee contracts.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- **Stage 1:** A financial asset that is not originally credit impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- **Stage 2:** If a significant increase in credit risk (SICR) since origination is identified, the financial asset is moved to Stage 2 and the Group records an allowance for LTECL. Refer Note 7.1.12.2 for a description on how the Group determines when a SICR has occurred.
- **Stage 3:** If a financial asset is credit-impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%. Refer Note 7.1.12.3 for a description on how the Group defines default and credit impaired assets.

*Purchased or originated credit impaired (POCI) financial assets:* Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the LTECL. The Group does not have POCI loans as at the reporting date.

The key judgements and assumptions adopted by the Group in addressing the requirements of SLFRS 9 are discussed below:

#### 7.1.12.2 Significant Increase in Credit Risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.

The Group individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, *inter-alia*:

- When the risk rating of a customer or an instrument has been downgraded to B+ by an external credit rating agency and/or when there is a two-notch downgrade in the banks internal rating system.
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instruments.
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation, that significantly affects the performance of the credit facility.
- Frequent changes in the Senior Management of an institutional customer.
- Delay in the commencement of business operations/projects by more than two years from the originally agreed date.
- When the customer is deceased/insolvent.
- When the Bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer when compared to the previous year for two consecutive years
- Erosion in net-worth by more than 25% when compared to the previous year.
- Number of times credit facilities are re-structured.
- Any other indicator that the Group believes which indicate an SICR as per expert credit judgement.

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with SICR and assessed accordingly in ECL computations. The Group also considers the conditions stipulated in the Directions issued by the CBSL on identifying SICR criteria for assessing credit facilities for ECL computations. The Group regularly monitors the effectiveness of the criteria used to identify SICR to confirm that the criteria is capable of identifying SICR before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the Group determines SICR based on the generally accepted investment/non-investment grade definitions published by international rating agencies. Debt instruments are moved to Stage 2, if their credit risk increases to the extent that they are no longer considered investment grade.

#### 7.1.12.3 Definition of default and credit impaired assets

The Group considers loans and advances to other customers be defaulted when:

- The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default".

In assessing whether a borrower is in default, the Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. Further, as per "CBSL Banking Act Direction No. 13 of 2021", Non-Performing Credit Facilities (NPCF) means all the Credit Facilities where the contractual payments of a customer are past due for more than 90 days or has remained in excess of the sanctioned limit for more than 90 days, and any other credit facilities classified as Stage 3 credit facility under SLFRS 9.

#### 7.1.12.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 7.1.12.2 and also as per the Policy on Upgrading of Credit Facilities. Financial instruments are transferred out of Stage 3 when they no longer exhibit any evidence of credit impairment as described above as per the Policy on Upgrading of Credit Facilities. The Bank has developed a comprehensive Policy on Upgrading of Credit Facilities in line with the CBSL Banking Act Direction No. 13 of 2021. Accordingly, credit facilities other than restructured and rescheduled facilities are upgraded to a better stage if all due contractual payments associated with such credit facility as at the date of upgrading are fully settled. Restructured and rescheduled facilities are gradually upgraded upon satisfactory repayment for a stipulated period according to the policy while exercising prudence principles.

#### 7.1.12.5 Grouping financial assets measured on collective basis

The Group calculates ECL either on a collective or an individual basis. Asset classes where the Group calculates ECL on individual basis include;

- Credit impaired facilities and facilities identified with SICR which are impaired based on the individual impairment assessment
- The Treasury, trading and interbank relationships (such as due from Banks, money at call and short notice, placements with banks, Government Securities, investments in debentures etc.)

Those financial assets for which, the Group determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to other customers are grouped into homogeneous portfolios, based on a combination of product and customer characteristics.

Details of the ECL calculation are given in Note 18 on pages 276 to 279.

### 7.2 Non-current assets held for sale and disposal groups

The Group intends to recover the value of Non-Current Assets and disposal groups classified as held for sale as at the reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset or disposal group is available-for-sale in its present condition, the Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard – SLFRS 5 on "Non-current Assets Held for Sale and Discontinued Operations", (SLFRS 5) these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment loss is first allocated to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Group's other accounting policies. As a result, once classified, the Group neither amortises nor depreciates the assets classified as held for sale.

In the Income Statement of the reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a NCI in a subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Income Statement.

## 7.3 Property, plant and equipment

Details of "Property, plant and equipment" are given in Note 38 on pages 307 to 319.

### 7.3.1 Depreciation

Details of "Depreciation" are given in Note 20 on pages 280 and 281.

### 7.3.2 Borrowing costs

As per the Sri Lanka Accounting Standard – LKAS 23 on "Borrowing Costs" (LKAS 23), the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

## 7.4 Investment property

Investment properties are initially measured at cost, including transaction costs. The Group subsequently measures investment properties under fair value model. Any gain or loss arising from a change in fair value and the rental income from the investment property is recognised under net other operating income.

Details of "Investment property" are given in Note 39 on pages 319 and 320.

## 7.5 Intangible assets

Details of "Intangible assets" are given in Note 40 on pages 321 to 322.

Amortisation recognised during the year in respect of intangible assets is included under the item of "Amortisation of intangible assets" under "Depreciation and amortisation" in profit or loss.

Refer Note 20 on pages 280 and 281.

## 7.6 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The "recoverable amount" of an asset or CGU is the greater of its VIU and its fair value less costs to sell. VIU is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 7.7 Dividends payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year, that are approved after the reporting date and not provided for, are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10 on "Events after the reporting period" (LKAS 10) in Note 68 on page 386.

## 7.8 Employee benefits

### 7.8.1 Defined Benefit Plans (DBPs)

A DBP is a post-employment benefit plan other than a Defined Contribution Plan (DCP) as defined in LKAS 19.

#### 7.8.1.1 Defined benefit pension plans

##### *7.8.1.1.1 Description of the plans and employee groups covered*

The Bank operates two types of Defined Benefit Pension Plans for its employees as described below:

(a) The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 years of age as at January 01, 1992 were covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Further, only the employees those who joined the Bank before January 01, 2000, became eligible for this pension scheme.

    During 2006, the Bank offered a restructured pension scheme to convert the DBP to a DCP for the pensionable employees of the Bank and over 99% of them accepted it. As a result, the above Pension Fund now covers only those employees who did not opt for the restructured pension scheme and those employees who were covered by the Pension Fund which was established in 1992, but retired before the restructured pension scheme came into effect;

(b) Provision for pensions has been made for those employees who retired before January 01, 2000, and on whose behalf the Bank could not make contributions to the Retirement Pension Fund for more than 10 years. This liability although not funded has been provided for in full in the Financial Statements;

The subsidiaries of the Bank do not operate pension funds.

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The Bank's net obligation in respect of Defined Benefit Pension Plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets, as per LKAS 19 as detailed in Note 48 on pages 327 to 335.

The past service cost is recognised as an expense on a straight-line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

#### *7.8.1.1.2 Recognition of actuarial gains or losses*

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

#### *7.8.1.1.3 Recognition of retirement benefit obligation*

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less past service cost not yet recognised and the fair value of the plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net-defined benefit liability/(asset), taking into account any changes in the net-defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to DBPs are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a DBP when the settlement occurs.

Amounts recognised in profit or loss as expenses on DBPs and provisions made on DBPs together with the details of valuation methods are given in Notes 19 and 48 on pages 280 and 327 to 335, respectively.

#### 7.8.2 Defined Contribution Plans (DCPs)

A DCP is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligations to pay a further amount. Obligations to DCPs are recognised in the profit or loss as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The Group has four such plans as explained in Notes 7.8.2.1, 7.8.2.2,7.8.2.3 and 7.8.2.4.

Amounts recognised in profit or loss as expenses on DCPs are given in Note 19 on page 280.

#### 7.8.2.1 Defined contribution pension plan

As explained in Note 7.8.1.1.1(a), during 2006, the Bank restructured its pension scheme which was a DBP to a DCP. This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provides for lump sum payments instead of commuted/monthly pensions to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and a future service package. The shortfall on account of the past service package in excess of the funds available in the Pension Fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, which are estimated to increase for this purpose at 10% p.a. based on the salary levels that prevailed as at the date of implementation of this scheme. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who opted for the restructured pension scheme.

The assets of this Fund are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

#### 7.8.2.2 Employees' Provident Fund

The Bank and employees contribute to an approved Private Provident Fund at 12% and 8% respectively, on the salaries of each employee. In addition, the employees may voluntarily contribute an excess amount. Other local entities of the Group and their employees contribute at the same percentages as above to the Employees' Provident Fund managed by the CBSL.

#### 7.8.2.3 Employees' Trust Fund

The Bank and other local entities of the Group contribute at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the CBSL.

#### 7.8.2.4 Defined Contribution Pension Fund (DCPF)

Defined Contribution Pension Fund (DCPF) was established on March 01, 2020, which is managed by a Board of Trustees consisting of representatives of Employee Organisations and the Management.

Employees who joined since the year 2000, and who are not covered under the Restructured Pension Scheme of the Bank and are in the service of the Bank as at March 01, 2020 are eligible for the new DCPF. The initial lump sum, based on Gratuity entitlement as at February 29, 2020, is being transferred to the accounts opened in the names of individual eligible employees.

The Bank contributes monthly, a percentage equivalent of seven decimals five per centum (7.5%) of the monthly salary of each eligible employee starting from March 01, 2020 until cessation of employment to the DCPF.

Employees cannot withdraw money from the DCPF before cessation of employment. In the event of early separation prior to retirement (excluding death), eligible employees are entitled to withdraw the accumulated amounts in their respective DCPF accounts. However, the eligible employees are not entitled to receive any DCPF payment where the completed service is less than five years (similar to the gratuity payments are done in case of a separation as per the Gratuity Act at the point of termination and separation). In the event of death of an employee whilst in service, the accumulated funds in the members account will be released in full to the nominated parties/legal heirs as the case may be, where the completed service is more than 5 years.

#### 7.8.3 Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate used as the yield as at the reporting date is the current market rate that has been extrapolated to reflect long-term rate of discount based on market rates of interest on short-term Corporate/ Government Bonds and anticipated long-term rate of inflation. The calculation is performed using the Projected Unit Credit Method. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group does not have any "Other long-term employee benefits plans".

#### 7.8.4 Terminal benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

#### 7.8.5 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### 7.8.6 Share-based payment arrangements

Share-based payment arrangements in which the Bank receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Bank. Executive Employees of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not operate any cash-settled share-based payment transactions.

The Group applies the requirements of the Sri Lanka Accounting Standard – SLFRS 2 on "Share-based Payment" (SLFRS 2) in accounting for equity-settled share-based payment transactions, if any, that were granted after January 01, 2012 and had not vested at the same date. As per SLFRS 2, on the grant date, fair value of equity-settled share-based payment awards (i.e., share options) granted to employees is recognised as personnel expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, so that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Employee Share Option Plan – 2019, which was granted is subjected to the above accounting treatment.

The details of Employee Share Option Plan is given in Note 52 on pages 338 to 340.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share as disclosed in Note 24.1 and Note 24.2 on page 283 and 284.

### 7.9 Other liabilities

Details of "Other liabilities" are given in Note 48 on pages 327 to 334.

### 7.10 Restructuring

Provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses arising on such restructuring are not provided for.

The Group does not have any provision for restructuring as at the reporting date.

### 7.11 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

The Group does not have any onerous contracts as at the reporting date.

### 7.12 Bank levies

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

### 7.13 Financial guarantees, letters of credit and undrawn loan commitments

"Financial guarantees" are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 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.

Financial guarantees are initially recognised in the Financial Statements (*within other liabilities*) at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement and ECL provision, if appropriate.

The premium received is recognised in profit or loss in Note 14.1 on "*Fee and commission income*" on a straight line basis over the life of the guarantee.

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 on in the SOFP, but included as part of contingent liabilities and commitments. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 57 on page 344.

Loan commitments at below market interest rates are initially measured at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less the cumulative amount of income recognised, when appropriate.

### 7.14 Commitments

All discernible risks are accounted for in determining the amount of known liabilities as explained in Note 7.9 above.

Details of the commitments are given in Note 57 on page 344.

### 7.15 Contingent liabilities and commitments

A detailed list of "Contingent liabilities and commitments" and "Litigation against the Bank" are given in Notes 57 and 59 on pages 344 and 346.

### 7.16 Stated capital and reserves

Details of the "Stated capital and reserves" are given in Notes 51, 53, 54 and 55 to the Financial Statements on pages 338 and 340 to 343.

### 7.17 Earnings per Share (EPS)

Details of "Basic and Diluted EPS" are given in Note 24 on page 283.

### 7.18 Operating segments

Details of "Operating segments" are given in Note 61 on pages 350 to 351.

### 7.19 Fiduciary assets

The Bank 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 these Financial Statements as they do not belong to the Bank.

## 8. Significant Accounting Policies – Recognition of income and expense

Details of "Income and expense" are given in Notes 12 to 21 on pages 272 to 281.

### 8.1 Interest income and interest expense

Details of "Interest income and Interest expense" are given in Note 13 on pages 272 to 274.

### 8.2 Fee and commission income and fee and commission expense

Details of "Fee and commission income and commission expense" are given in Note 14 on pages 274 and 275.

### 8.3 Net gains/(losses) from trading

Details of "Net gains/(losses) from trading" are given in Note 15 on page 275.

### 8.4 Net gains/(losses) from derecognition of financial assets

Details of "Net gains/ (losses) from derecognition of financial assets" are given in Note 16 on page 275.

### 8.5 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities.

Dividends are presented in net gains/(losses) from trading, net gains/(losses) from financial investments or other income (net) based on the underlying classification of the equity investment.

Details of "Dividend income" are given in Notes 15 and 17 on pages 275 and 276.

### 8.6 Leases

The Group assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

After the assessment of whether a contract is, or contains, a lease, the Group determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

#### 8.6.1 Group as a lessee

As per SLFRS 16, when the Group has determined that a contract contains a lease component and one or more additional lease components or non-lease components, the consideration in the contract is allocated to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the commencement date, the Group recognises right-of-use of an asset and a lease liability which is measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the IBR.

After initial recognition, the Group applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset. Where the right does not transfer the ownership of the asset, the Group depreciates it from commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. In addition, interest expense on the lease liability is recognised in the profit or loss.

Details of "Right-of-use asset" and "Lease liability" are given in Notes 38 and 48 respectively, on pages 307 and 327.

#### 8.6.2 Group as a lessor

Similar to above, at the commencement of the contract, the Group determines whether the contract contains a lease component and one or more additional lease components or non-lease components. When there is one or more additional lease or non-lease component, the Group allocates consideration based on the guidelines given in SLFRS 15.

##### 8.6.2.1 Finance leases – Group as a lessor

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Group recognises assets held under finance lease in the SOFP and present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived at by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate of interest which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The Group's net investment in lease is included in Note 33 "Loans and advances to other customers". The finance income receivable is recognised in "interest income" over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

##### 8.6.2.2 Operating leases – Group as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The Group recognises lease payments from operating leases as income on straight-line basis. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and are recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 8.7 Rental income and rental expenses

Rental income and rental expense are recognised in profit or loss on an accrual basis.

## 9. Significant Accounting Policies – Tax expense

### 9.1 Income tax expense

#### 9.1.1 Current tax

Details of "Income tax expense" are given in Note 23 on pages 282 and 283.

With the enactment of the Inland Revenue (Amendment) Act No. 45 of 2022, income tax rate was revised from 24% to 30%, effective from October 01, 2022 of the Year of Assessment 2022/23. Accordingly, Income Tax rate of 30% will be applied on the taxable income of the Bank for the 2nd half of the financial year ended December 31, 2022.

#### 9.1.2 Deferred tax

Details of "Deferred tax assets and liabilities" are given in Note 41 on pages 322 to 324.

Deferred tax assets and liabilities as at December 31, 2022, will be assessed based on the revised income tax rate of 30%, effective from October 01, 2022.

#### 9.1.3 Tax exposures

In determining the amount of current and deferred tax, the Group considers the favourable/adverse impact to the tax liability due to assessments, revision to legislature etc. Such changes to tax liabilities could impact the tax expense in the period in which such revision is considered, as an over or under provision.

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### 9.2 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

### 9.3 Withholding Tax (WHT) on dividends distributed by the Bank, subsidiaries and associates

#### 9.3.1 WHT on dividends distributed by the Bank

As per the Inland Revenue (Amendment) Act No 10 of 2021, requirement to deduct WHT on dividends from residents had been removed effective January 01, 2020. Dividends paid to non-residents had been exempted from income tax. Further, dividend paid by the Bank to shareholders to the extent that such dividend payment is attributable to, or derived from, gains and profits from dividend received by the Bank is exempt in the hands of shareholders.

With the implementation of Inland Revenue (Amendment) Act No 45 of 2022, WHT on dividends has been introduced effective from January 01, 2023, on residents as well as non-residents at the rate of 15%. Dividend paid by the Bank will be exempt in the hands of shareholders to the extent that such dividend payment is attributable to, or derived from dividend received by the Bank subjected to WHT.

#### 9.3.2 WHT on dividends distributed by the subsidiaries and associate

As per the Inland Revenue (Amendment) Act No 10 of 2021 requirement to deduct WHT on dividend had been removed effective January 01, 2020 as mentioned under Note 9.3.1 above. The dividend income received from subsidiaries and associate was liable for income tax at 14% up until September 30, 2022. Applicable income tax rate for dividend received during the period from October 01, 2022 to December 31, 2022 was 15%.

As per the Inland Revenue (Amendment) Act No. 45 of 2022, WHT on dividends has been introduced effective from January 01, 2023. Accordingly, dividend income received from subsidiaries and associate will be liable to WHT at the rate of 15% which will be a final tax for the Bank.

### 9.4 Value Added Tax on Financial Services (VAT FS)

The value addition attributable to the supply of financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before income tax and emoluments payable. Emoluments payable include benefits in money and not in money including contribution or provision relating to terminal benefits.

The amount of VAT FS charged in determining the profit or loss for the period is given in Note 22 on page 281.

VAT FS rate was revised from 15% to 18% effective from January 01, 2022.

### 9.5 Social Security Contribution Levy (SSCL)

As per the Social Security Contribution Levy (SSCL) Act No. 25 of 2022, effective from October 01, 2022, Bank is liable to pay SSCL on Financial Services at the rate of 2.5% on the value addition attributable to the supply of financial services. Further Non-Financial Services are made liable on the turnover at the rate of 2.5%.

## 10. Significant Accounting Policies – Statement of Cash Flows

### 10.1 Statement of Cash Flows

The Statement of Cash Flows is prepared using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on "Statement of Cash Flows" (LKAS 7). Gross cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 28 on page 290.

The Statement of Cash Flows is given on page 248.

## 11. Amendments to Accounting Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's Financial Statements are disclosed below. The Group/Bank intends to adopt these standards, if applicable, when they become effective.

**Amendments to "Accounting Policies, Changes in Accounting Estimates and Errors" (LKAS 8): Definition of Accounting Estimates**

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after January 01, 2023. The Group does not expect this will result in a material impact on its Financial Statements.

**Amendments to "Income Taxes" (LKAS 12): Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements 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.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after January 01, 2023. The Group does not expect this will result in a material impact on its Financial Statements.

**Amendments to "Presentation of Financial Statements" (LKAS 1) and "Making Materiality Judgements" (IFRS Practice Statement 2): Disclosure of Accounting Policies**

Amendments to LKAS 1 and IFRS Practice Statement 2, 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.
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after January 01, 2023. The Group is in the process of revisiting its accounting policy information disclosures to ensure consistency with the amended requirements.

## 12. Gross income

ACCOUNTING POLICY

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

| *For the year ended December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Interest income | 13.1 | 272 | 222,393,079 | 132,818,178 | 218,326,576 | 130,443,030 |
| Fee and commission income | 14.1 | 274 | 26,191,530 | 15,917,337 | 25,463,976 | 15,410,402 |
| Net gains/(losses) from trading | 15 | 275 | 35,297,450 | 1,936,007 | 35,297,450 | 1,936,007 |
| Net gains/(losses) from derecognition of financial assets | 16 | 275 | 276,884 | 3,001,574 | 276,884 | 3,001,574 |
| Net other operating income | 17 | 276 | (3,771,999) | 10,002,216 | (3,921,204) | 10,094,869 |
| **Total** | | | 280,386,944 | 163,675,312 | 275,443,682 | 160,885,882 |

## 13. Net interest income

ACCOUNTING POLICY

Interest income and expense are recognised in the Income Statement using the Effective Interest Rate(EIR) method.

Interest income and expense presented in the Income Statement include:

- Interest on financial assets measured at amortised cost (AC) calculated using EIR method;
- Interest on financial assets measured at fair value through other comprehensive income (FVOCI) calculated using EIR method;
- Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

### Effective interest rate (EIR)

The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

| *For the year ended December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Interest income | 13.1 | 272 | 222,393,079 | 132,818,178 | 218,326,576 | 130,443,030 |
| Less: Interest expense | 13.2 | 273 | 137,727,868 | 66,401,846 | 136,582,546 | 65,832,418 |
| **Net interest income** | | | 84,665,211 | 66,416,332 | 81,744,030 | 64,610,612 |

### 13.1 Interest income

| *For the year ended December 31,* | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Cash and cash equivalents | 945,450 | 447,742 | 942,513 | 441,281 |
| Balances with central banks | 815,979 | 1,299,948 | 764,839 | 1,270,371 |
| Placements with banks | 1,685,996 | 778,021 | 1,645,801 | 737,349 |
| Securities purchased under resale agreements | 1,133,583 | 375,398 | 1,133,583 | 375,398 |

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| For the year ended December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Financial assets recognised through profit or loss | | | 1,516,691 | 1,101,385 | 1,516,691 | 1,101,385 |
| Derivative financial instruments | | | 237,438 | 167,377 | 237,438 | 167,377 |
| Other financial instruments | | | 1,279,253 | 934,008 | 1,279,253 | 934,008 |
| Financial assets at amortised cost – Loans and advances to other customers | | | 144,253,496 | 79,654,575 | 141,875,299 | 77,946,692 |
| Financial assets at amortised cost – Debt and other financial instruments | | | 51,750,895 | 25,951,467 | 50,507,221 | 25,422,968 |
| Financial assets measured at fair value through other comprehensive income | | | 18,995,711 | 22,034,788 | 18,724,172 | 22,015,431 |
| Interest accrued on impaired loans and advances to other customers | 33.2 (a) & 33.2 (b) | 298 | 1,295,278 | 1,174,854 | 1,216,457 | 1,132,155 |
| **Total** | | | 222,393,079 | 132,818,178 | 218,326,576 | 130,443,030 |

## 13.2 Interest expense

| For the year ended December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Due to banks | | | 4,019,415 | 3,326,777 | 3,981,636 | 3,287,374 |
| Derivative financial liabilities | | | 422,823 | 196,903 | 422,823 | 196,903 |
| Securities sold under repurchase agreements | | | 21,906,770 | 6,190,149 | 21,926,162 | 6,207,288 |
| Financial liabilities at amortised cost – due to depositors | | | 105,008,989 | 51,533,473 | 103,852,829 | 50,947,510 |
| Refinance borrowings | | | 551,968 | 679,976 | 551,968 | 679,976 |
| Foreign currency borrowings | | | 476,698 | 624,395 | 476,698 | 624,395 |
| Subordinated liabilities | | | 4,843,571 | 3,398,554 | 4,843,571 | 3,398,554 |
| Interest expense on lease liabilities | 48.1 | 327 | 497,634 | 451,619 | 526,859 | 490,418 |
| **Total** | | | 137,727,868 | 66,401,846 | 136,582,546 | 65,832,418 |

## 13.3 Net interest income from Government Securities

Interest income and interest expenses on Government Securities given in the Notes 13.3 (a), 13.3 (b) and 13.3 (c) below have been extracted from interest income and interest expenses given in Notes 13.1 and 13.2 respectively and disclosed separately, as required by the guidelines issued by the Central Bank of Sri Lanka.

### 13.3 (a) Net interest income from Sri Lanka Government Securities

| For the year ended December 31, | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| **Interest income** | 67,938,881 | 46,873,585 | 67,662,025 | 46,854,228 |
| Securities purchased under resale agreements | 213,978 | 363,247 | 213,978 | 363,247 |
| Financial assets recognised through profit or loss | 432,506 | 418,180 | 432,506 | 418,180 |
| Financial assets at amortised cost – Debt and other financial instruments | 48,296,686 | 24,057,370 | 48,291,369 | 24,057,370 |
| Financial assets measured at fair value through other comprehensive income | 18,995,711 | 22,034,788 | 18,724,172 | 22,015,431 |
| **Less: Interest expense** | 21,904,434 | 6,184,684 | 21,923,826 | 6,201,823 |
| Securities sold under repurchase agreements | 21,904,434 | 6,184,684 | 21,923,826 | 6,201,823 |
| **Net interest income** | 46,034,447 | 40,688,901 | 45,738,199 | 40,652,405 |

### 13.3 (b) Net interest income from Bangladesh Government Securities

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Interest income** | **3,285,610** | 1,419,812 | **3,285,610** | 1,419,812 |
| Securities purchased under resale agreements | **919,605** | 12,151 | **919,605** | 12,151 |
| Financial assets recognised through profit or loss | **846,747** | 515,828 | **846,747** | 515,828 |
| Financial assets at amortised cost – Debt and other financial instruments | **1,519,258** | 891,833 | **1,519,258** | 891,833 |
| **Less: Interest expense** | **2,336** | 5,465 | **2,336** | 5,465 |
| Securities sold under repurchase agreements | **2,336** | 5,465 | **2,336** | 5,465 |
| **Net interest income** | **3,283,274** | 1,414,347 | **3,283,274** | 1,414,347 |

### 13.3 (c) Net interest income from Maldives Government Securities

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Interest income** | **1,226,004** | 520,270 | **–** | – |
| Financial assets at amortised cost – Debt and other financial instruments | **1,226,004** | 520,270 | **–** | – |
| **Net interest income** | **1,226,004** | 520,270 | **–** | – |

## 14. Net fee and commission income

ACCOUNTING POLICY

Fee and commission income and expenses that are integral to the EIR of a financial asset or financial liability are capitalised and included in the measurement of the EIR and recognised in the Income Statement over the expected life of the instrument.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, and placement fees are recognised as the related services are performed. If a loan commitment is not expected to result in the drawdown of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

As per SLFRS 15, the Group 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 Group can identify each party's rights regarding the goods or services to be transferred;
- The Group can identify the payment terms for the goods or services to be transferred;
- The contract has the commercial substance;
- It is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

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

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *For the year ended December 31,* | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Fee and commission income | 14.1 | 274 | **26,191,530** | 15,917,337 | **25,463,976** | 15,410,402 |
| Less: Fee and commission expense | 14.2 | 275 | **6,022,429** | 3,675,143 | **5,972,708** | 3,658,939 |
| **Net fee and commission income** | | | **20,169,101** | 12,242,194 | **19,491,268** | 11,751,463 |

### 14.1 Fee and commission income

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Loans and advances related services | **683,255** | 995,957 | **579,746** | 923,230 |
| Credit and debit cards related services | **9,963,857** | 6,011,952 | **9,916,179** | 6,007,304 |
| Trade and remittances related services | **11,155,415** | 5,618,954 | **10,747,416** | 5,418,288 |

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Deposits related services | 1,333,869 | 1,152,602 | 1,295,695 | 1,129,868 |
| Guarantees related services | 1,342,030 | 1,091,690 | 1,338,690 | 1,087,614 |
| Other financial services | 1,713,104 | 1,046,182 | 1,586,250 | 844,098 |
| **Total** | 26,191,530 | 15,917,337 | 25,463,976 | 15,410,402 |

## 14.2 Fee and commission expense

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Loans and advances related services | 57,915 | 52,020 | 47,984 | 48,802 |
| Credit and debit cards related services | 5,721,589 | 3,439,222 | 5,694,791 | 3,432,095 |
| Trade and remittances related services | 89,244 | 63,092 | 76,252 | 57,233 |
| Other financial services | 153,681 | 120,809 | 153,681 | 120,809 |
| **Total** | 6,022,429 | 3,675,143 | 5,972,708 | 3,658,939 |

## 15. Net gains/(losses) from trading

ACCOUNTING POLICY

"Net gains/(losses) from trading" comprises gains less losses related to trading assets and trading liabilities, and also include all realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets, and foreign exchange gains/(losses).

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Derivative financial instruments** | 35,903,416 | 1,748,834 | 35,903,416 | 1,748,834 |
| Foreign exchange gains/(losses) from banks and other customers | 36,357,421 | 1,804,014 | 36,357,421 | 1,804,014 |
| Net mark-to-market gains/(losses) | (454,005) | (55,180) | (454,005) | (55,180) |
| **Financial assets recognised through profit or loss – measured at fair value** | | | | |
| **Government Securities** | (1,169,937) | (162,829) | (1,169,937) | (162,829) |
| Net mark-to-market gains/(losses) | (1,320,746) | (583,205) | (1,320,746) | (583,205) |
| Net capital gains | 150,809 | 420,376 | 150,809 | 420,376 |
| **Equities** | 563,971 | 350,002 | 563,971 | 350,002 |
| Net mark-to-market gains/(losses) | 348,256 | 105,673 | 348,256 | 105,673 |
| Net capital gains | 175,531 | 207,954 | 175,531 | 207,954 |
| Dividend income | 40,184 | 36,375 | 40,184 | 36,375 |
| **Total** | 35,297,450 | 1,936,007 | 35,297,450 | 1,936,007 |

## 16. Net gains/(losses) from derecognition of financial assets

ACCOUNTING POLICY

Net gains/(losses) from derecognition of financial assets comprises all realised gains less losses related to debt instruments measured at FVOCI and financial assets measured at amortised cost.

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| **Financial assets measured at fair value through other comprehensive income** | | | | |
| **Government Securities** | 276,884 | 3,001,574 | 276,884 | 3,001,574 |
| Net capital gains | 276,884 | 3,001,574 | 276,884 | 3,001,574 |
| **Total** | 276,884 | 3,001,574 | 276,884 | 3,001,574 |

## 17. Net other operating income

ACCOUNTING POLICY

Net other operating income includes foreign exchange gains and losses, dividend income from equity instruments designated at fair value through other comprehensive income, dividend income from group entities, gains/(losses) on disposal of property, plant and equipment, and rental income.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *For the year ended December 31,* | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Net gains on sale of property, plant and equipment | 17.1 | 276 | 20,118 | 4,054 | 10,868 | 5,164 |
| Net gains/(losses) on revaluation of foreign exchange | | | (5,133,408) | 8,832,749 | (5,237,707) | 8,785,121 |
| Recoveries o/a loans written off | | | 449,028 | 316,277 | 392,321 | 273,666 |
| Dividend income from subsidiaries | | | – | – | 109,600 | 101,800 |
| Dividend income from associate | | | – | 4,111 | – | 4,111 |
| Dividend income from other equity securities | | | 54,571 | 48,638 | 54,331 | 48,398 |
| Gain on fair valuation of investment properties | | | 7,950 | 5,284 | – | – |
| Rental and other income | 17.2 | 276 | 829,742 | 795,214 | 749,383 | 876,609 |
| Less: Dividends received from associate transferred to investment account | | | – | (4,111) | – | – |
| **Total** | | | (3,771,999) | 10,002,216 | (3,921,204) | 10,094,869 |

### 17.1 Gains/(losses) on sale of property, plant and equipment

ACCOUNTING POLICY

The gains or losses on disposal of property, plant and equipment are determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item in "other operating income" in the year in which the Group transfers control of the asset to the buyer.

### 17.2 Rental and other income

ACCOUNTING POLICY

Rental and other income is recognised in the Income Statement on an accrual basis.

## 18. Impairment charges and other losses

ACCOUNTING POLICY

**Impairment charges as per SLFRS 9**

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Placements with banks;
- Loans and advances to other customers;
- Financial assets at amortised cost-debt and other financial instruments;
- Debt instruments at fair value through other comprehensive income;
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

The Group assesses the credit risk and the estimates unbiased and probability-weighted ECL, and incorporates all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

**Impairment charges on loans and advances to customers**

For loans and advances above a predefined threshold, the Group individually assesses for significant increase in credit risk (SICR). If a particular loan is individually impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If the Group determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

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17
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The Group computes ECL using three main components; a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data and then adjusted to reflect forward-looking information.

- PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligations (as per Note 7.1.12.3) either over the next 12-months (12m PD) or over the remaining lifetime (Lifetime PD) of the obligation. PD estimates are estimates at a certain date and days past due (DPD) is the primary input into the determination of the term structure of PD for exposures. DPD are determined by counting the number of days since the due date. The Group employs statistical models to analyse the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
- LGD – The loss given default 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. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using EIR as the discounting factor. LGD is usually expressed as a percentage of the EAD.
- EAD – The exposure at default represents the expected exposure in the event of a default. The Group estimates EAD, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. To calculate EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months. To calculate EAD of all other loans, default events over the lifetime of the financial instruments are considered.

### Impairment charges on financial investments

Impairment charges on financial investments include ECL on debt instruments at FVOCI and financial assets at amortised cost.

The Group does not have historical loss experience on debt instruments at amortised cost and debt instruments at FVOCI. Thus the Group considers PDs published by the external sources (i.e. Bloomberg)

LGD for debt securities issued by the government of Sri Lanka in rupees is considered as 0%, LGDs for foreign currency denominated securities issued by the government are considered at a minimum of 20%. For all other instruments LGD is considered as 45% in accordance with the guideline issued by the Central Bank of Sri Lanka. However, the Group recognises a higher loss rates o/a SLSBs during the year, following the downgrade of the country's sovereign rating and the announcement made by the Government in April 2022 stating the Government's intention to restructure its external public debt. The Group was able to significantly reduce the investments made in SLDB portfolio by exercising the option to convert maturing SLDBs in to LKR denominated government securities.

EAD of a debt instrument is its gross carrying amount.

### Credit cards and revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities. The Group reviews the sanction limits at least annually and therefore has the right to cancel and/or reduce the limits. Therefore, the Group calculates only the 12-month ECL (12m ECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount). EAD of Stage 3 contracts are limited to the gross carrying amount which is the utilised amount since it is assumed that the Group freeze the limits of those contracts up to the utilised amount. The expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

### Undrawn loan commitments

When estimating Life Time ECL (LTECL) for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For loan commitments and letters of credit, the allowances for ECLs are 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. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The allowances for ECLs related to financial guarantee contracts are recognised within "other liabilities".

### Forward-looking information

The Group incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group also obtained experienced credit judgement from economic experts and Credit and Risk Management Departments to formulate a base case, a best case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by the CBSL and other reliable sources.

| Quantitative drivers of credit risk | Qualitative drivers of credit risk |
|---|---|
| GDP growth rate | Status of industry business |
| Unemployment rate | Regulatory impact |
| Interest rate (AWPLR) | Government policies |
| Rate of inflation | Average loan to value ratio |
| Exchange rate | |

### The calculation of ECLs

The Group measures loss allowance at an amount equal to LTECL, except for following, which are measured as 12m ECL.

- Loans and advances on which credit risk has not increased significantly since the initial recognition.
- Debt instruments that are determined to have low credit risk at the reporting date.

The Group considers a debt instrument to have a low credit risk when they have an "investment grade" credit risk rating.

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ECLs are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of expected cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

### Financial assets that are not credit-impaired at the reporting date

As described above, the Group calculates 12m ECL 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 EAD and multiplied by the economic factor adjustment, expected LGD and discounted by an approximation to the original EIR. When the financial asset has shown a SICR since origination, the Group records an allowance for LTECLs based on PDs estimated over the lifetime of the instrument.

### Financial assets that are credit-impaired at the reporting date

Impairment allowance on credit-impaired financial assets assessed on individual basis is computed as the difference between the asset's gross carrying amount and the present value of estimated future cash flows. The expected future cash flows are based on the estimates made by credit risk officers' as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. The Group regularly reviews the assumptions for projecting future cash flows.

Further, the loans and advances identified as credit impaired in Note 7.1.12.3 will be assessed for impairment with 100% PD.

### Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, Government Securities, Letters of Credit/Guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements, etc.

### Write-off of financial assets

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Due to the high level of economic uncertainty that prevailed throughout the year, the Bank used management overlays, such as additional provisions on loans in risk elevated industries and loans subject to moratoriums, and additional provisions by stressing PDs and LGDs, to capture unforeseeable events that cannot be assessed using modelled outcomes. As a result, the cumulative impairment provision under management overlays as of December 31, 2022 is Rs. 10.386 Bn. (Rs. 13.260 Bn. as at December 31, 2021).

### Scenario probability weighting (Bank)

| As at December 31, | 2022 % | 2021 % |
|---|---|---|
| Best case | 5.00 | 15.00 |
| Base case | 15.00 | 40.00 |
| Worst case | 80.00 | 45.00 |

Further, the Group is of the view that there was no significant impact of COVID-19 on the value of assets pledged as collateral and therefore no additional adjustment made to ECL in this regard.

Refer Note 2.12.5 on page 252 for detailed explanation on significant assumptions and estimates used with the objective of capturing the impact of economic uncertainties to ECL provisions .

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *For the year ended December 31,* | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Loans and advances to other customers | 33.2 (a) & 33.2 (b) | 298 | 22,296,719 | 14,947,268 | 21,961,786 | 14,553,362 |
| Other financial assets | | | 47,281,554 | 6,948,387 | 47,161,839 | 6,899,745 |
| Off-balance sheet credit exposures | | | 2,196,056 | 3,242,610 | 2,188,066 | 3,237,575 |
| **Total impairment charges** | 18.1 & 18.2 | 279 | 71,774,329 | 25,138,265 | 71,311,691 | 24,690,682 |
| Investments in subsidiaries | 36.1 | 305 | – | – | – | – |
| Direct write-offs | | | 149,931 | 1,661 | 149,931 | 1,661 |
| **Total** | | | 71,924,260 | 25,139,926 | 71,461,622 | 24,692,343 |

## 18.1 Impairment charge to the Income Statement – Group

| *For the year ended December 31,* | Note | Page No. | 2022 Stage 1 Rs. '000 | 2022 Stage 2 Rs. '000 | 2022 Stage 3 Rs. '000 | 2022 Total Rs. '000 | 2021 Stage 1 Rs. '000 | 2021 Stage 2 Rs. '000 | 2021 Stage 3 Rs. '000 | 2021 Total Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 28.1 | 290 | 3,131 | – | – | 3,131 | 4,371 | – | – | 4,371 |
| Placements with banks | 30.1 | 292 | (26,571) | – | – | (26,571) | 34,148 | – | – | 34,148 |
| Financial assets at amortised cost – loans and advances to banks | | | – | – | – | – | (85) | – | – | (85) |
| Financial assets at amortised cost – loans and advances to other customers | 33.2 (a) | 298 | 2,380,186 | 8,141,759 | 11,774,774 | 22,296,719 | 3,607,700 | 6,767,014 | 4,572,554 | 14,947,268 |
| Financial assets at amortised cost – debt and other financial instruments | 34.1 (a) | 301 | (5,342,455) | 59,997,100 | – | 54,654,645 | 3,576,138 | – | – | 3,576,138 |
| Financial assets measured at fair value through other comprehensive income | 35.2 | 303 | (7,349,651) | – | – | (7,349,651) | 3,333,815 | – | – | 3,333,815 |
| Contingent liabilities and commitments | 57.3 (a) | 345 | 1,564,590 | 687,280 | (55,814) | 2,196,056 | 551,897 | 570,466 | 2,120,247 | 3,242,610 |
| **Total** | | | (8,770,770) | 68,826,139 | 11,718,960 | 71,774,329 | 11,107,984 | 7,337,480 | 6,692,801 | 25,138,265 |

## 18.2 Impairment charge to the Income Statement – Bank

| *For the year ended December 31,* | Note | Page No. | 2022 Stage 1 Rs. '000 | 2022 Stage 2 Rs. '000 | 2022 Stage 3 Rs. '000 | 2022 Total Rs. '000 | 2021 Stage 1 Rs. '000 | 2021 Stage 2 Rs. '000 | 2021 Stage 3 Rs. '000 | 2021 Total Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 28.1 | 290 | 2,921 | – | – | 2,921 | 4,313 | – | – | 4,313 |
| Placements with banks | 30.1 | 292 | 24,962 | – | – | 24,962 | 2,823 | – | – | 2,823 |
| Financial assets at amortised cost – loans and advances to banks | | | – | – | – | – | (85) | – | – | (85) |
| Financial assets at amortised cost – loans and advances to other customers | 33.2 (b) | 298 | 2,389,315 | 8,028,839 | 11,543,632 | 21,961,786 | 3,552,303 | 6,729,149 | 4,271,910 | 14,553,362 |
| Financial assets at amortised cost – debt and other financial instruments | 34.1 (b) | 301 | (5,513,493) | 59,997,100 | – | 54,483,607 | 3,558,879 | – | – | 3,558,879 |
| Financial assets measured at fair value through other comprehensive income | 35.2 | 303 | (7,349,651) | – | – | (7,349,651) | 3,333,815 | – | – | 3,333,815 |
| Contingent liabilities and commitments | 57.3 (b) | 346 | 1,556,600 | 687,280 | (55,814) | 2,188,066 | 546,862 | 570,466 | 2,120,247 | 3,237,575 |
| **Total** | | | (8,889,346) | 68,713,219 | 11,487,818 | 71,311,691 | 10,998,910 | 7,299,615 | 6,392,157 | 24,690,682 |

## 19. Personnel expenses

ACCOUNTING POLICY

See Note 7.8 on pages 267 to 269.

| *For the year ended December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Salary and bonus | 19.1 | 280 | 15,221,895 | 13,162,309 | 14,674,018 | 12,772,557 |
| Pension costs | 19.1 | 280 | 2,171,669 | 1,952,582 | 2,121,218 | 1,906,726 |
| Contributions to defined contribution/benefit plans – Funded schemes | | | 2,120,322 | 1,870,673 | 2,095,355 | 1,834,810 |
| Contributions to defined benefit plans – Unfunded schemes | 48.2 (b) & 48.3 (c) | 328 & 329 | 51,347 | 81,909 | 25,863 | 71,916 |
| Equity-settled share-based payment expense | 19.2 & 55.5 | 280 & 343 | – | 41,972 | – | 41,972 |
| Other expenses | 19.3 | 280 | 2,394,719 | 1,642,349 | 2,317,310 | 1,600,062 |
| **Total** | | | 19,788,283 | 16,799,212 | 19,112,546 | 16,321,317 |

### 19.1 Salary, bonus, and pension costs

Salary, bonus, and contributions to defined contribution/benefit plans, reported above also include amounts paid to and contributions made on behalf of Executive Directors.

### 19.2 Share-based payment

The Bank has an equity-settled share-based compensation plans, the details of which are given in Note 52 on pages 338 to 340.

### 19.3 Other expenses

This includes expenses such as overtime payments, leave encashment benefits, medical and hospitalisation charges, expenses incurred on staff training/ recruitment and staff welfare activities, etc.

## 20. Depreciation and amortisation

ACCOUNTING POLICY

### Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Income Statement. Freehold land is not depreciated. Right-of-use assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Group will obtain the ownership by the end of the lease term, the assets are depreciated over the shorter of the estimated useful lives and the lease terms.

The estimated useful lives of the property, plant and equipment of the Bank as at December 31, 2022 are as follows:

| Class of asset | Depreciation percentage per annum | Period (years) |
|---|---|---|
| Freehold and leasehold buildings | 2.5 | 40 |
| Motor vehicles | 20 | 5 |
| Computer equipment | 20 | 5 |
| Office equipment, furniture, and fixtures | | |
| Office equipment | 20 | 5 |
| Office interior work | 20 | 5 |
| Furniture and fittings | 10 | 10 |

The above rates are compatible with the rates used by all Group entities, and these rates have not been changed during the year.

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences 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 the Management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year together with other relevant information are given in Note 38 on pages 307 to 319.

Depreciation methods, useful lives, and residual values are reassessed at each reporting date and adjusted, if required.

### Amortisation of intangible assets

Intangible assets are amortised using the straight-line method to write down the cost over its estimated useful economic lives from the date on which it is available for use, at the rates specified below:

| Class of asset | Amortisation percentage per annum | Period (years) |
|---|---|---|
| Computer software | 20 | 5 |
| Trademarks | 20 | 5 |

The above rates are compatible with the rates used by all Group entities, and these rates have not been changed during the year.

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

Amortisation method, useful lives,and residual values are reviewed at each reporting date and adjusted, if required.

| For the year ended December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Depreciation of property, plant and equipment | 38.1 to 38.4 | 308 to 311 | 1,702,657 | 1,661,967 | 1,569,649 | 1,528,123 |
| Depreciation of right-of-use assets | 38.1 to 38.4 | 308 to 311 | 1,428,593 | 1,241,441 | 1,573,170 | 1,381,543 |
| Amortisation of computer software | 40.1 | 322 | 467,121 | 316,658 | 420,657 | 268,962 |
| **Total** | | | 3,598,371 | 3,220,066 | 3,563,476 | 3,178,628 |

## 21. Other operating expenses

**ACCOUNTING POLICY**

These expenses are recognised in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenses incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency are charged to the Income Statement.

| For the year ended December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Directors' emoluments | 21.1 | 281 | 96,163 | 86,178 | 52,019 | 54,243 |
| Auditors' remuneration | | | 55,526 | 41,784 | 33,571 | 24,724 |
| Audit fees and expenses | | | 28,587 | 24,649 | 14,280 | 12,516 |
| Audit-related fees and expenses | | | 12,342 | 8,562 | 12,342 | 8,562 |
| Non-audit fees and expenses | | | 14,597 | 8,573 | 6,949 | 3,646 |
| Professional and legal expenses | | | 1,228,348 | 1,060,863 | 1,698,691 | 1,464,852 |
| Deposit insurance premium paid to the Central Banks | | | 1,529,785 | 1,216,151 | 1,520,962 | 1,207,906 |
| Donations including contribution made to the CSR Trust Fund | | | 126,967 | 133,158 | 126,910 | 133,158 |
| Establishment expenses | | | 2,369,221 | 1,930,171 | 2,197,186 | 1,761,259 |
| Maintenance of property, plant, and equipment | | | 3,177,441 | 2,237,536 | 3,191,557 | 2,288,815 |
| Office administration expenses | | | 4,312,136 | 2,932,620 | 3,439,287 | 2,456,853 |
| **Total** | | | 12,895,587 | 9,638,461 | 12,260,183 | 9,391,810 |

### 21.1 Directors' emoluments

Directors' emoluments represent the fees paid to both Executive and Non-Executive Directors of the Group and the Bank.

## 22. Taxes on financial services

**ACCOUNTING POLICY**

Refer Notes 9.4 and 9.5 on page 271.

| For the year ended December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Value Added Tax | 9.4 | 271 | 3,914,152 | 5,845,230 | 3,885,951 | 5,809,224 |
| Social Security Contribution Levy | 9.5 | 271 | 7,229 | – | 6,265 | – |
| **Total** | | | 3,921,381 | 5,845,230 | 3,892,216 | 5,809,224 |

## 23. Income tax expense/(reversal)

**ACCOUNTING POLICY**

Income tax expense comprises of current tax expense and deferred tax expenses/(reversal). Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in Equity or in OCI.

### Current tax

'"Current tax" comprises the best estimate of expected tax payable to or (recoverable) from taxation authorities for the year and any adjustment to the tax payable or (recoverable) in respect of previous years. It is measured using tax rates enacted or substantively enacted, as at the reporting date in countries where the group operates. "Current tax" also include any tax expense arising from dividend income.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the relevant statutes of tax jurisdictions in countries where the group operates. Major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, is computed as required by the Sri Lanka Accounting Standard – LKAS 12 on "Income Taxes".

### Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities as per Statement of Financial Position and the amount of such assets or liabilities considered for taxation purposes. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. 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 recognised for deductible temporary, carried forward unused tax losses and carried forward unused tax credits to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reassessed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax asset or liability is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted as at the reporting date.

The measurement of deferred tax reflects the tax consequences to the Group as at the reporting date in relation to difference in carrying amount of its assets and liabilities recorded in the Statement of Financial Position and the tax base.

**Entity-wise breakup of income tax expense in the Income Statement is as follows:**

| | | | Applicable tax rate | | GROUP | | BANK | |
|---|---|---|---|---|---|---|---|---|
| *For the year ended December 31,* | Note | Page No. | 2022 % | 2021 % | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| **Current year tax expense** | | | | | 25,265,452 | 12,998,493 | 24,648,645 | 12,661,181 |
| Income tax expense of Sri Lanka operation | | | 30 | – | 8,076,346 | – | 8,076,346 | – |
| Income tax expense of Sri Lanka operation | | | 24 | 24 | 9,399,632 | 9,956,348 | 9,399,632 | 9,956,348 |
| Income tax expense of Bangladesh operation | | | 40 | 40 | 7,172,667 | 2,424,292 | 7,172,667 | 2,424,292 |
| Profit remittance tax of Bangladesh operation | | | 20 | 20 | – | 280,541 | – | 280,541 |
| Income tax expense of Commercial Development Company PLC | | | 30 & 24 | 24 | 93,220 | 82,943 | – | – |
| Income tax expense of CBC Tech Solutions Limited | | | 30 & 24 | 24 | 14,949 | 4,787 | – | – |
| Income tax expense of CBC Finance Limited | | | 30 & 24 | 24 | 44,164 | 82,737 | – | – |
| Income tax expense of Commercial Bank of Maldives Private Limited | | | 25 | 25 | 455,685 | 160,549 | – | – |
| Income tax expense of Commex Sri Lanka S.R.L. – Italy | | | 24 | 24 | – | – | – | – |
| Income tax expense of CBC Myanmar Micro Finance Company Limited | | | 22 | 25 | – | – | – | – |
| Income tax expense of Commercial Insurance Brokers Private Limited | | | 30 & 24 | 24 | 8,789 | 6,296 | – | – |
| **Under/(over) provision** | 47 | 327 | | | 35,006 | (1,477,813) | 40,803 | (1,419,755) |
| Effect of change in tax rates | | | | | – | (1,122,059) | – | (1,063,834) |
| In respect of prior years | | | | | 35,006 | (355,754) | 40,803 | (355,921) |
| **Deferred tax impact** | 41.1 | 323 | | | (25,194,892) | (2,853,644) | (25,060,854) | (2,846,274) |
| Effect of change in tax rates | | | | | (4,350,788) | 760,752 | (4,303,334) | 733,699 |
| Origination and reversal of temporary differences | | | | | (20,844,104) | (3,614,396) | (20,757,520) | (3,579,973) |
| **Total** | | | | | 105,566 | 8,667,036 | (371,406) | 8,395,152 |
| Effective tax rate (including deferred tax) (%) | | | | | 0.43 | 26.30 | (1.64) | 26.23 |
| Effective tax rate (excluding deferred tax) (%) | | | | | 103.25 | 34.96 | 109.25 | 35.13 |

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### 23.1 Reconciliation of the accounting profit to income tax expense/(reversal)

A reconciliation between taxable income and the accounting profit multiplied by the statutory tax rates is given below:

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *For the year ended December 31,* | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Accounting profit before tax from operations** | | | **24,505,038** | 32,957,324 | **22,598,385** | 32,001,203 |
| Tax effect at the statutory income tax rate | | | **9,051,238** | 9,326,948 | **8,444,136** | 9,003,255 |
| Sri Lankan operation of the Bank | | | **1,428,213** | 6,380,128 | **1,428,213** | 6,380,128 |
| Bangladesh operation of the Bank | | | **7,015,923** | 2,623,127 | **7,015,923** | 2,623,127 |
| Subsidiaries | | | **607,102** | 323,693 | **–** | – |
| Tax effect of exempt income | | | **(2,834,887)** | (2,213,112) | **(2,834,887)** | (2,159,029) |
| Tax effect of non-deductible expenses | | | **22,767,540** | 10,697,039 | **22,615,595** | 10,476,419 |
| Tax effect of tax deductible expenses | | | **(3,718,439)** | (5,092,923) | **(3,576,199)** | (4,940,005) |
| Profit remittance tax of Bangladesh operation | | | **–** | 280,541 | **–** | 280,541 |
| Under/(over) provision of taxes in respect of prior years | 47 | 327 | **35,006** | (1,477,813) | **40,803** | (1,419,755) |
| Origination and reversal of temporary differences | 41.1 | 323 | **(25,194,892)** | (2,853,644) | **(25,060,854)** | (2,846,274) |
| **Income tax expense reported in the Income Statement at the effective income tax rate** | | | **105,566** | 8,667,036 | **(371,406)** | 8,395,152 |

## 24. Earnings Per Share (EPS)

ACCOUNTING POLICY

The Group computes basic and diluted EPS for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding, adjusted for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees under Employee Share Option Plans (ESOP).

Details of Basic and Diluted EPS are given below:

### 24.1 Basic and diluted earnings per ordinary share

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | Note | Page No. | **2022** | 2021 | **2022** | 2021 |
| **Amount used as the numerator:** | | | | | | |
| Profit for the year attributable to equity holders of the Bank (Rs. '000) | | | **23,811,914** | 24,062,469 | **22,969,791** | 23,606,051 |
| **Number of ordinary shares used as the denominator:** | | | | | | |
| Weighted average number of ordinary shares for Basic EPS | 24.2 | 284 | **1,239,778,047** | 1,239,689,535 | **1,239,778,047** | 1,239,689,535 |
| Weighted average number of ordinary shares for diluted EPS | 24.2 | 284 | **1,239,778,047** | 1,239,689,535 | **1,239,778,047** | 1,239,689,535 |
| **Basic earnings per ordinary share (Rs.)** | | | **19.21** | 19.41 | **18.53** | 19.04 |
| **Diluted earnings per ordinary share (Rs.)** | | | **19.21** | 19.41 | **18.53** | 19.04 |

## 24.2 Weighted average number of ordinary shares for basic and diluted Earnings Per Share

| | Note | Page No. | Outstanding number of shares 2022 | Outstanding number of shares 2021 | Weighted average number of shares 2022 | Weighted average number of shares 2021 |
|---|---|---|---|---|---|---|
| Number of shares in issue as at January 01, | | | 1,194,221,299 | 1,166,905,638 | 1,194,221,299 | 1,166,905,638 |
| Add: Number of shares satisfied in the form of issue and allotment of new shares from first & final dividend for 2020 | 51.1 | 338 | – | 26,841,407 | – | 26,841,407 |
| Add: Number of shares satisfied in the form of issue and allotment of new shares from first & final dividend for 2021 | 51.1 | 338 | 45,556,748 | – | 45,556,748 | 45,556,748 |
| | | | 1,239,778,047 | 1,193,747,045 | 1,239,778,047 | 1,239,303,793 |
| Add: Number of shares issued under ESOP – 2019 | 51.1 | 338 | – | 474,254 | – | 385,742 |
| **Number of ordinary shares for basic earnings per ordinary share calculation** | | | 1,239,778,047 | 1,194,221,299 | 1,239,778,047 | 1,239,689,535 |
| Add: Bonus element on number of outstanding options under ESOP 2019 as at the year end | | | – | – | – | – |
| **Number of ordinary shares for diluted earnings per ordinary share calculation (*)** | | | 1,239,778,047 | 1,194,221,299 | 1,239,778,047 | 1,239,689,535 |

*(*) The weighted average number of ordinary shares for Basic EPS and for diluted EPS are equal, due to the market price of the ordinary voting share being below the offer price of the ESOPs as at December 31, 2022 and December 31, 2021.*

## 25. Dividends on ordinary shares

ACCOUNTING POLICY

Refer Note 7.7 on page 267.

| | | | GROUP AND BANK | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Cash dividend | | Scrip dividend | | Total | |
| | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| **Dividends for 2020** | | | | | | | | |
| First and final dividend | 25.1 | 284 | – | 5,253,070 | – | 2,334,698 | – | 7,587,768 |
| **Dividends for 2021** | | | | | | | | |
| First and final dividend | 25.2 | 284 | 5,373,996 | – | 3,582,664 | – | 8,956,660 | – |
| **Total amount paid during the year** | | | | | | | 8,956,660 | 7,587,768 |

### 25.1 Dividends for 2020

The Bank did not declare cash dividends during the year 2020 (for the year ended December 31, 2020), in conformity with the restrictions imposed by the Central Bank of Sri Lanka on payment of interim cash dividends for the financial year 2020, as per instructions issued via the Banking Act Direction No. 03 of 2020, dated May 13, 2020, on "Restrictions on Discretionary Payments of Licensed Banks".

The Board of Directors of the Bank recommended and paid a first and final dividend of Rs. 6.50 per share which was satisfied in the form of Rs. 4.50 per share in cash (paid on April 05, 2021 and April 09, 2021) and Rs. 2.00 per share in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank for the year ended December 31, 2020, and these new shares were listed on April 09, 2021.

This dividend was recommended and paid after the Financial Statements for the year 2020 were finalised and audited by the Bank's external auditors and in compliance with the instructions given in the Banking Act Direction No. 01 of 2021, dated January 19, 2021, on "Restrictions on Discretionary Payments of Licensed Banks".

### 25.2 Dividends for 2021

The Bank did not declare cash dividends during the year 2021 (for the year ended December 31, 2021), in conformity with the restrictions imposed by the Central Bank of Sri Lanka on payment of interim cash dividends for the financial year 2021, as per instructions issued via the Banking Act Direction No 11 of 2021, dated July 13, 2021, on "Restrictions on Discretionary Payments of Licensed Banks".

The Board of Directors of the Bank recommended and paid a first and final dividend of Rs. 7.50 per share which was satisfied in the form of Rs. 4.50 per share in cash (paid on April 07, 2022 and April 11, 2022) and Rs. 3.00 per share in the form of issue and allotment of new shares for both voting and non-voting ordinary shares of the Bank for the year ended December 31, 2021, and these new shares were listed on April 26, 2022.

This dividend was recommended and paid after the Financial Statements for the year 2021 were finalised and audited by the Bank's external auditors and in compliance with the instructions given in the Banking Act Direction No 11 of 2021, dated July 13, 2021, on "Restrictions on Discretionary Payments of Licensed Banks".

### 25.3 Dividends for 2022

The Bank did not declare cash dividends during the year 2022 (for the year ended December 31, 2022), in conformity with the restrictions imposed by the Central Bank of Sri Lanka on payment of cash dividends for the financial year 2022, as per the instructions given in the Banking Act Direction No 2 of 2022, dated May 06, 2022, on "Restrictions on Discretionary Payments of Licensed Banks".

Since the Financial Statements for the year 2022 are finalised and audited by the Bank's external auditors, the Board of Directors of the Bank has now recommended the payment of a first and final dividend of Rs. 4.50 per share to be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders' of the Bank for the year ended December 31, 2022.

The above first and final dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on March 30, 2023.

## 26. Classification of financial assets and financial liabilities

The tables below provide a reconciliation between line items in the Statement of Financial Position and categories of financial assets and financial liabilities of the Group and the Bank:

### 26.1 Classification of financial assets and financial liabilities – Group

| | | | As at December 31, 2022 | | | | As at December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Financial instruments recognised through profit or loss (FVTPL) | Financial instruments at amortised cost (AC) | Financial instruments at fair value through other comprehensive income (FVOCI) | Total | Financial instruments recognised through profit or loss (FVTPL) | Financial instruments at amortised cost (AC) | Financial instruments at fair value through other comprehensive income (FVOCI) | Total |
| | Note | Page No. | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| **Financial assets** | | | | | | | | | | |
| Cash and cash equivalents | 28 | 290 | – | 151,109,490 | – | 151,109,490 | – | 69,335,379 | – | 69,335,379 |
| Balances with Central Banks | 29 | 291 | – | 78,597,120 | – | 78,597,120 | – | 56,777,465 | – | 56,777,465 |
| Placements with banks | 30 | 291 | – | 96,082,937 | – | 96,082,937 | – | 12,498,709 | – | 12,498,709 |
| Securities purchased under resale agreements | | | – | 1,517,308 | – | 1,517,308 | – | 3,000,490 | – | 3,000,490 |
| Derivative financial assets | 31 | 292 | 8,345,091 | – | – | 8,345,091 | 3,245,120 | – | – | 3,245,120 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | 24,873,057 | – | – | 24,873,057 | 23,436,123 | – | – | 23,436,123 |
| Financial assets at amortised cost – loans and advances to other customers | 33 | 296 | – | 1,155,492,527 | – | 1,155,492,527 | – | 1,029,584,075 | – | 1,029,584,075 |
| Financial assets at amortised cost – debt and other financial instruments | 34 | 300 | – | 761,650,234 | – | 761,650,234 | – | 385,390,598 | – | 385,390,598 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | – | – | 118,652,257 | 118,652,257 | – | – | 335,953,802 | 335,953,802 |
| **Total financial assets** | | | 33,218,148 | 2,244,449,616 | 118,652,257 | 2,396,320,021 | 26,681,243 | 1,556,586,716 | 335,953,802 | 1,919,221,761 |
| **Financial liabilities** | | | | | | | | | | |
| Due to banks | 43 | 325 | – | 64,971,170 | – | 64,971,170 | – | 73,801,195 | – | 73,801,195 |
| Derivative financial liabilities | 44 | 325 | 2,880,667 | – | – | 2,880,667 | 2,092,198 | – | – | 2,092,198 |
| Securities sold under repurchase agreements | | | – | 97,726,435 | – | 97,726,435 | – | 151,424,854 | – | 151,424,854 |
| Financial liabilities at amortised cost – due to depositors | 45 | 325 | – | 1,977,743,661 | – | 1,977,743,661 | – | 1,472,640,456 | – | 1,472,640,456 |
| Financial liabilities at amortised cost – other borrowings | 46 | 326 | – | 16,150,356 | – | 16,150,356 | – | 32,587,051 | – | 32,587,051 |
| Subordinated liabilities | 50 | 336 | – | 61,400,967 | – | 61,400,967 | – | 38,303,466 | – | 38,303,466 |
| **Total financial liabilities** | | | 2,880,667 | 2,217,992,589 | – | 2,220,873,256 | 2,092,198 | 1,768,757,022 | – | 1,770,849,220 |

## 26.2 Classification of financial assets and financial liabilities – Bank

| | | | As at December 31, 2022 | | | | As at December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Page No. | Financial instruments recognised through profit or loss (FVTPL) Rs. '000 | Financial instruments at amortised cost (AC) Rs. '000 | Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000 | Total Rs. '000 | Financial instruments recognised through profit or loss (FVTPL) Rs. '000 | Financial instruments at amortised cost (AC) Rs. '000 | Financial instruments at fair value through other comprehensive income (FVOCI) Rs. '000 | Total Rs. '000 |
| **Financial assets** | | | | | | | | | | |
| Cash and cash equivalents | 28 | 290 | – | 149,393,611 | – | 149,393,611 | – | 68,078,076 | – | 68,078,076 |
| Balances with Central Banks | 29 | 291 | – | 66,493,499 | – | 66,493,499 | – | 52,897,908 | – | 52,897,908 |
| Placements with banks | 30 | 291 | – | 95,899,645 | – | 95,899,645 | – | 11,584,952 | – | 11,584,952 |
| Securities purchased under resale agreements | | | – | 1,517,308 | – | 1,517,308 | – | 3,000,490 | – | 3,000,490 |
| Derivative financial assets | 31 | 292 | 8,345,091 | – | – | 8,345,091 | 3,245,120 | – | – | 3,245,120 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | 24,873,057 | – | – | 24,873,057 | 23,436,123 | – | | 23,436,123 |
| Financial assets at amortised cost – loans and advances to other customers | 33 | 296 | – | 1,130,442,579 | – | 1,130,442,579 | – | 1,014,618,580 | – | 1,014,618,580 |
| Financial assets at amortised cost – debt and other financial instruments | 34 | 300 | – | 725,935,299 | – | 725,935,299 | – | 369,417,889 | – | 369,417,889 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | – | – | 117,056,240 | 117,056,240 | – | – | 335,463,338 | 335,463,338 |
| **Total financial assets** | | | 33,218,148 | 2,169,681,941 | 117,056,240 | 2,319,956,329 | 26,681,243 | 1,519,597,895 | 335,463,338 | 1,881,742,476 |
| **Financial liabilities** | | | | | | | | | | |
| Due to banks | 43 | 325 | – | 65,130,061 | – | 65,130,061 | – | 73,777,420 | – | 73,777,420 |
| Derivative financial liabilities | 44 | 325 | 2,880,667 | – | – | 2,880,667 | 2,092,198 | – | – | 2,092,198 |
| Securities sold under repurchase agreements | | | – | 97,726,435 | – | 97,726,435 | – | 151,911,842 | – | 151,911,842 |
| Financial liabilities at amortised cost – due to depositors | 45 | 325 | – | 1,914,359,494 | – | 1,914,359,494 | – | 1,443,093,453 | – | 1,443,093,453 |
| Financial liabilities at amortised cost – other borrowings | 46 | 326 | – | 16,150,356 | – | 16,150,356 | – | 32,587,051 | – | 32,587,051 |
| Subordinated liabilities | 50 | 336 | – | 61,400,967 | – | 61,400,967 | – | 38,303,466 | – | 38,303,466 |
| **Total financial liabilities** | | | 2,880,667 | 2,154,767,313 | – | 2,157,647,980 | 2,092,198 | 1,739,673,232 | – | 1,741,765,430 |

## 27. Fair value measurement

ACCOUNTING POLICY

The Group measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement. An analysis of fair value measurement of financial and non-financial assets and liabilities is provided below:

### Level 1

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

When available, the Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

### Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using;

(a) quoted prices in active markets for similar instruments,

(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

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### Level 3

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for Management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

## 27.1 Assets and liabilities measured at fair value and fair value hierarchy

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the Statement of Financial Position:

| | | | GROUP | | | | BANK | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *As at December 31, 2022* | Note | Page No. | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| **Non-financial assets** | | | | | | | | | | |
| Property, plant and equipment | | | | | | | | | | |
| Land and buildings | 38 | 307 | – | – | 15,557,919 | 15,557,919 | – | – | 14,763,482 | 14,763,482 |
| Investment properties | 39 | 319 | | | 80,350 | 80,350 | – | – | – | – |
| **Total non-financial assets at fair value** | | | | | 15,638,269 | 15,638,269 | – | – | 14,763,482 | 14,763,482 |
| **Financial assets** | | | | | | | | | | |
| Derivative financial assets | 31 | 292 | | | | | | | | |
| Currency swaps | | | – | 6,937,076 | – | 6,937,076 | – | 6,937,076 | – | 6,937,076 |
| Interest rate swaps | | | – | 52,220 | – | 52,220 | – | 52,220 | – | 52,220 |
| Forward contracts | | | – | 1,355,230 | – | 1,355,230 | – | 1,355,230 | – | 1,355,230 |
| Spot contracts | | | – | 565 | – | 565 | – | 565 | – | 565 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | | | | | | | | |
| Government Securities | | | 22,848,251 | – | – | 22,848,251 | 22,848,251 | – | – | 22,848,251 |
| Equity shares | | | 2,024,806 | – | – | 2,024,806 | 2,024,806 | – | – | 2,024,806 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | | | | | | | | |
| Government Securities | | | 118,436,200 | – | – | 118,436,200 | 116,840,307 | – | – | 116,840,307 |
| Equity securities | | | 150,566 | – | 65,491 | 216,057 | 150,566 | – | 65,367 | 215,933 |
| **Total financial assets at fair value** | | | 143,459,823 | 8,345,091 | 65,491 | 151,870,405 | 141,863,930 | 8,345,091 | 65,367 | 150,274,388 |
| **Total assets at fair value** | | | 143,459,823 | 8,345,091 | 15,703,760 | 167,508,674 | 141,863,930 | 8,345,091 | 14,828,849 | 165,037,870 |
| **Financial liabilities** | | | | | | | | | | |
| Derivative financial liabilities | 44 | 325 | | | | | | | | |
| Currency swaps | | | – | 1,996,458 | – | 1,996,458 | – | 1,996,458 | – | 1,996,458 |
| Interest rate swaps | | | – | 509,185 | – | 509,185 | – | 509,185 | – | 509,185 |
| Forward contracts | | | – | 373,965 | – | 373,965 | – | 373,965 | – | 373,965 |
| Spot contracts | | | – | 1,059 | – | 1,059 | – | 1,059 | – | 1,059 |
| **Total liabilities at fair value** | | | – | 2,880,667 | – | 2,880,667 | – | 2,880,667 | – | 2,880,667 |

| | | | GROUP | | | | BANK | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *As at December 31, 2021* | Note | Page No. | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| **Non-financial assets** | | | | | | | | | | |
| Property, plant and equipment | | | | | | | | | | |
| Land and buildings | 38 | 307 | – | – | 15,805,471 | 15,805,471 | – | – | 15,008,982 | 15,008,982 |
| Investment properties | 39 | 319 | – | – | 72,400 | 72,400 | – | – | – | – |
| **Total non-financial assets at fair value** | | | – | – | 15,877,871 | 15,877,871 | – | – | 15,008,982 | 15,008,982 |
| **Financial assets** | | | | | | | | | | |
| Derivative financial assets | 31 | 292 | | | | | | | | |
| Currency swaps | | | – | 2,672,049 | – | 2,672,049 | – | 2,672,049 | – | 2,672,049 |
| Forward contracts | | | – | 572,517 | – | 572,517 | – | 572,517 | – | 572,517 |
| Spot contracts | | | – | 170 | – | 170 | – | 170 | – | 170 |
| Currency options | | | – | 384 | – | 384 | – | 384 | – | 384 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | | | | | | | | |
| Government Securities | | | 21,839,251 | – | – | 21,839,251 | 21,839,251 | – | – | 21,839,251 |
| Equity shares | | | 1,596,872 | – | – | 1,596,872 | 1,596,872 | – | – | 1,596,872 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | | | | | | | | |
| Government Securities | | | 278,155,601 | 57,348,345 | – | 335,503,946 | 277,665,261 | 57,348,345 | – | 335,013,606 |
| Equity securities | | | 396,346 | – | 53,510 | 449,856 | 396,346 | – | 53,386 | 449,732 |
| **Total financial assets at fair value** | | | 301,988,070 | 60,593,465 | 53,510 | 362,635,045 | 301,497,730 | 60,593,465 | 53,386 | 362,144,581 |
| **Total assets at fair value** | | | 301,988,070 | 60,593,465 | 15,931,381 | 378,512,916 | 301,497,730 | 60,593,465 | 15,062,368 | 377,153,563 |
| **Financial liabilities** | | | | | | | | | | |
| Derivative financial liabilities | 44 | 325 | | | | | | | | |
| Currency swaps | | | – | 1,698,238 | – | 1,698,238 | – | 1,698,238 | – | 1,698,238 |
| Interest rate swaps | | | – | 129,315 | – | 129,315 | – | 129,315 | – | 129,315 |
| Forward contracts | | | – | 258,788 | – | 258,788 | – | 258,788 | – | 258,788 |
| Spot contracts | | | – | 5,473 | – | 5,473 | – | 5,473 | – | 5,473 |
| Currency options | | | – | 384 | – | 384 | – | 384 | – | 384 |
| **Total liabilities at fair value** | | | – | 2,092,198 | – | 2,092,198 | – | 2,092,198 | – | 2,092,198 |

## 27.2 Level 3 fair value measurement

### Property, Plant and Equipment (PPE)

Reconciliation from the beginning balance to the ending balance for the land and buildings in the Level 3 of the fair value hierarchy is given in Notes 38.1 to 38.4 on pages 308 to 311.

Reconciliation of Revaluation Reserve pertaining to land and buildings categorised as Level 3 in the fair value hierarchy is given in the Statement of Changes in Equity on pages 240 to 246.

Note 38.5 (b) on page 313 provides information on significant unobservable inputs used in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

Note 38.5 (c) on page 318 provides details of valuation techniques used and sensitivity of fair value measurement to changes in significant unobservable inputs.

### Investment properties

Reconciliation from the beginning balance to the ending balance for the investment properties in the Level 3 of the fair value hierarchy is available in Note 39 on page 319.

Note 39.1 (b) on page 320 provides information on significant unobservable inputs used in measuring fair value of investment properties categorised as level 3 in the fair value hierarchy.

Note 39.1 (c) on page 320 provides details of valuation techniques used and the sensitivity of fair value measurement to changes in significant unobservable inputs.

## 27.3 Financial instruments not measured at fair value and fair value hierarchy

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

### Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (e.g. fixed rate loans and advances, due to depositors, subordinated liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

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## Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

## Assets for which fair value approximates carrying value

For financial assets and liabilities with short-term maturities or with short-term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used:

| | | | GROUP | | | | | BANK | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *As at December 31, 2022* | Note | Page No. | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total fair values Rs. '000 | Total carrying amount Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total fair values Rs. '000 | Total carrying amount Rs. '000 |
| **Financial assets** | | | | | | | | | | | | |
| Cash and cash equivalents | 28 | 290 | – | 151,109,490 | – | 151,109,490 | 151,109,490 | – | 149,393,611 | – | 149,393,611 | 149,393,611 |
| Balances with Central Banks | 29 | 291 | – | 78,597,120 | – | 78,597,120 | 78,597,120 | – | 66,493,499 | – | 66,493,499 | 66,493,499 |
| Placements with banks | 30 | 291 | – | 96,082,937 | – | 96,082,937 | 96,082,937 | – | 95,899,645 | – | 95,899,645 | 95,899,645 |
| Securities purchased under resale agreements | | | – | 1,517,308 | – | 1,517,308 | 1,517,308 | – | 1,517,308 | – | 1,517,308 | 1,517,308 |
| Financial assets at amortised cost – loans and advances to other customers | 33 | 292 | – | – | 1,090,864,107 | 1,090,864,107 | 1,155,492,527 | – | – | 1,065,814,159 | 1,065,814,159 | 1,130,442,579 |
| Financial assets at amortised cost – debt and other financial instruments | 34 | 300 | 503,835,751 | 53,911,427 | – | 557,747,178 | 761,650,234 | 468,120,816 | 53,911,427 | – | 522,032,243 | 725,935,299 |
| **Total financial assets** | | | 503,835,751 | 381,218,282 | 1,090,864,107 | 1,975,918,140 | 2,244,449,616 | 468,120,816 | 367,215,490 | 1,065,814,159 | 1,901,150,465 | 2,169,681,941 |
| **Financial liabilities** | | | | | | | | | | | | |
| Due to banks | 43 | 325 | – | – | 64,971,170 | 64,971,170 | 64,971,170 | – | – | 65,130,061 | 65,130,061 | 65,130,061 |
| Securities sold under repurchase agreements | | | – | 97,726,435 | – | 97,726,435 | 97,726,435 | – | 97,726,435 | – | 97,726,435 | 97,726,435 |
| Financial liabilities at amortised cost – due to depositors | 45 | 325 | – | – | 1,985,993,019 | 1,985,993,019 | 1,977,743,661 | – | – | 1,922,608,851 | 1,922,608,851 | 1,914,359,494 |
| Financial liabilities at amortised cost – other borrowings | 46 | 326 | – | – | 16,150,356 | 16,150,356 | 16,150,356 | – | – | 16,150,356 | 16,150,356 | 16,150,356 |
| Subordinated liabilities | 50 | 336 | – | – | 54,899,526 | 54,899,526 | 61,400,967 | – | – | 54,899,526 | 54,899,526 | 61,400,967 |
| **Total financial liabilities** | | | – | 97,726,435 | 2,122,014,071 | 2,219,740,506 | 2,217,992,589 | – | 97,726,435 | 2,058,788,794 | 2,156,515,229 | 2,154,767,313 |

| | | | GROUP | | | | | BANK | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *As at December 31, 2021* | Note | Page No. | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total fair values Rs. '000 | Total carrying amount Rs. '000 | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total fair values Rs. '000 | Total carrying amount Rs. '000 |
| **Financial assets** | | | | | | | | | | | | |
| Cash and cash equivalents | 28 | 290 | – | 69,335,379 | – | 69,335,379 | 69,335,379 | – | 68,078,076 | – | 68,078,076 | 68,078,076 |
| Balances with Central Banks | 29 | 291 | – | 56,777,465 | – | 56,777,465 | 56,777,465 | – | 52,897,908 | – | 52,897,908 | 52,897,908 |
| Placements with banks | 30 | 291 | – | 12,498,709 | – | 12,498,709 | 12,498,709 | – | 11,584,952 | – | 11,584,952 | 11,584,952 |
| Securities purchased under resale agreements | | | – | 3,000,490 | – | 3,000,490 | 3,000,490 | – | 3,000,490 | – | 3,000,490 | 3,000,490 |
| Financial assets at amortised cost – loans and advances to other customers | 33 | 296 | – | – | 1,023,382,541 | 1,023,382,541 | 1,029,584,075 | – | – | 1,008,417,046 | 1,008,417,046 | 1,014,618,580 |
| Financial assets at amortised cost – debt and other financial instruments | 34 | 300 | 299,805,766 | 21,283,153 | – | 321,088,919 | 385,390,598 | 283,833,057 | 21,283,153 | – | 305,116,210 | 369,417,889 |
| **Total financial assets** | | | 299,805,766 | 162,895,196 | 1,023,382,541 | 1,486,083,503 | 1,556,586,716 | 283,833,057 | 156,844,579 | 1,008,417,046 | 1,449,094,682 | 1,519,597,895 |
| **Financial liabilities** | | | | | | | | | | | | |
| Due to banks | 43 | 325 | – | – | 73,801,195 | 73,801,195 | 73,801,195 | – | – | 73,777,420 | 73,777,420 | 73,777,420 |
| Securities sold under repurchase agreements | | | – | 151,424,854 | – | 151,424,854 | 151,424,854 | – | 151,911,842 | – | 151,911,842 | 151,911,842 |
| Financial liabilities at amortised cost – due to depositors | 45 | 325 | – | – | 1,473,182,119 | 1,473,182,119 | 1,472,640,456 | – | – | 1,443,635,116 | 1,443,635,116 | 1,443,093,453 |
| Financial liabilities at amortised cost – other borrowings | 46 | 326 | – | – | 32,587,051 | 32,587,051 | 32,587,051 | – | – | 32,587,051 | 32,587,051 | 32,587,051 |
| Subordinated liabilities | 50 | 336 | – | – | 38,730,460 | 38,730,460 | 38,303,466 | – | – | 38,730,460 | 38,730,460 | 38,303,466 |
| **Total financial liabilities** | | | – | 151,424,854 | 1,618,300,825 | 1,769,725,679 | 1,768,757,022 | – | 151,911,842 | 1,588,730,047 | 1,740,641,889 | 1,739,673,232 |

### 27.4 Valuation techniques and inputs in measuring fair values

The table below provides information on the valuation techniques and inputs used in measuring the fair values of derivative financial assets and liabilities in the Level 2 of the fair value hierarchy, as given in Note 27.1 on page 287.

| Type of financial instruments | Fair value as at December 31, 2022 (Rs. '000) | Valuation technique | Significant valuation inputs |
|---|---|---|---|
| Derivative financial assets | 8,345,091 | **Adjusted forward rate approach**<br>This approach considers the present value of projected forward exchange rate as at the reporting date as the fair value. The said forward rate is projected, based on the spot exchange rate and the forward premium/discount calculated using extrapolated interest rates of the currency pairs under consideration. In computing the present value, interest rate differential between two currencies under consideration is used as the discount rate. | • Spot exchange rate |
| Derivative financial liabilities | 2,880,667 | | • Interest rate differentials between currencies under consideration |

### 28. Cash and cash equivalents

**ACCOUNTING POLICY**

Cash and cash equivalents include cash in hand, demand placements with banks and loans at call/short notice and highly liquid financial assets with original maturities within three months or less from the date of acquisition. These are subject to an insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments. These items are brought to Financial Statements at face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

| *As at December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Cash in hand | | | 48,162,374 | 30,792,774 | 47,104,381 | 30,276,356 |
| Coins and notes held in local currency | | | 39,514,575 | 27,341,234 | 39,489,686 | 27,331,072 |
| Coins and notes held in foreign currency | | | 8,647,799 | 3,451,540 | 7,614,695 | 2,945,284 |
| Balances with banks | | | 86,403,404 | 25,099,804 | 85,745,179 | 24,358,860 |
| Local banks | | | 57,078 | 189,319 | – | – |
| Foreign banks | | | 86,346,326 | 24,910,485 | 85,745,179 | 24,358,860 |
| Money at call and at short notice | | | 16,557,741 | 13,450,414 | 16,557,741 | 13,450,415 |
| **Gross cash and cash equivalents (*)** | | | 151,123,519 | 69,342,992 | 149,407,301 | 68,085,631 |
| Less: Provision for impairment | 28.1 | 290 | 14,029 | 7,613 | 13,690 | 7,555 |
| **Net cash and cash equivalents** | | | 151,109,490 | 69,335,379 | 149,393,611 | 68,078,076 |

*(*) Gross cash and cash equivalents are reported in the Statement of Cash Flows.*

### 28.1 Movement in provision for impairment during the year

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Movement in Stage 1 Impairment** | | | | | | |
| Balance as at January 01, | | | 7,613 | 3,241 | 7,555 | 3,241 |
| Charge/(write back) to the Income Statement | 18.1 & 18.2 | 279 | 3,131 | 4,371 | 2,921 | 4,313 |
| Exchange rate variance on foreign currency provisions | | | 3,285 | 1 | 3,214 | 1 |
| **Balance as at December 31,** | | | 14,029 | 7,613 | 13,690 | 7,555 |

The maturity analysis of cash and cash equivalents is given in Note 60 on pages 348 and 349.

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## 29. Balances with Central Banks

ACCOUNTING POLICY

Balances with Central Banks consist of Statutory/Non-statutory balances with Central Banks and are carried at amortised cost in the Statement of Financial Position.

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| **Statutory balances with Central Banks** | | | | |
| Balances with Central Bank of Sri Lanka | 35,944,930 | 33,393,537 | 35,944,930 | 33,393,537 |
| Balances with Bangladesh Bank | 30,548,569 | 6,398,973 | 30,548,569 | 6,398,973 |
| Balances with Maldives Monetary Authority | 5,773,115 | 1,834,097 | – | – |
| **Non-statutory balances with Central Banks** | | | | |
| Balances with Central Bank of Sri Lanka | – | 13,105,398 | – | 13,105,398 |
| Balances with Maldives Monetary Authority | 6,330,506 | 2,045,460 | – | – |
| **Total** | 78,597,120 | 56,777,465 | 66,493,499 | 52,897,908 |

The maturity analysis of balances with Central Banks is given in Note 60 on pages 348 and 349.

### Balances with Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve on all deposit liabilities denominated in Sri Lankan Rupees. As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at December 31, 2022, the minimum cash reserve requirement was 4.00% of the rupee deposit liabilities. (4.00% as at December 31, 2021 and this rate was applicable from September 01, 2021). There is no reserve requirement for foreign currency deposits liabilities of the Domestic Banking Unit (DBU) and the deposit liabilities of the Offshore Banking Centre (OBC) in Sri Lanka.

### Balances with Bangladesh Bank

The Bank's Bangladesh operation is required to maintain the Statutory Liquidity Requirement on time and demand liabilities (both local and foreign currencies), partly in the form of a Cash Reserve Requirement and the balance by way of foreign currency and/or in the form of unencumbered securities held with the Bangladesh Bank. As per the Bangladesh Bank regulations, the Statutory Liquidity Requirement as at December 31, 2022 was 17.00% for Domestic Banking Unit (DBU) and 15.00% for Off-shore Banking Unit (OBU)(17.00% for DBU and 15.00% for OBU in 2021) on time and demand liabilities (both local and foreign currencies), which includes a Cash Reserve Requirement of 4.00% on DBU and 2.00% for OBU (4.00% on DBU and 2.00% for OBU in 2021) and the balance 13.00% is permitted to be maintained in foreign currency and/or also in unencumbered securities held with the Bangladesh Bank for both DBU and OBU (13.00% for both DBU and OBU in 2021).

### Balances with Maldives Monetary Authority

According to the Banking Act No 24 of 2010, the Bank requires to maintain a statutory reserve on all deposit liabilities denominated in both foreign currency and local currency excluding interbank deposits of other Banks in Maldives, letter of credit and margin deposits. According to the regulations laid down by the Maldives Monetary Authority (MMA), the Minimum Reserve Requirement (MRR) as at December 31, 2022 was 10.00% for Maldivian Rufiyaa and USD currency. In response to the COVID-19 pandemic, the MRR was temporarily lowered in April 2020 from 10.00% to 7.50% and on July 16, 2020, the MRR for foreign currency deposits was further lowered temporarily to 5.00% to address the dollar liquidity issues. Effective from June 03, 2021, the MRR for local currency deposits has been increased back to 10.00% from 7.50%. Further, with effect from October 20, 2022, MMA has decided to increase USD rate back to 10.00%.

## 30. Placements with banks

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| Placements – Within Sri Lanka | | | – | 10,173,165 | – | 9,328,113 |
| Placements – Outside Sri Lanka | | | 96,117,256 | 2,362,769 | 95,933,756 | 2,262,769 |
| **Gross placements with banks** | | | 96,117,256 | 12,535,934 | 95,933,756 | 11,590,882 |
| Less: Provision for impairment | 30.1 | 292 | 34,319 | 37,225 | 34,111 | 5,930 |
| **Net placements with banks** | | | 96,082,937 | 12,498,709 | 95,899,645 | 11,584,952 |

### 30.1 Movement in provision for impairment during the year

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Movement in Stage 1 impairment** | | | | | | |
| Balance as at January 01, | | | 37,225 | 3,046 | 5,930 | 3,003 |
| Charge/(write back) to the Income Statement | 18.1 & 18.2 | 279 | (26,571) | 34,148 | 24,962 | 2,823 |
| Exchange rate variance on foreign currency provisions | | | 23,665 | 31 | 3,219 | 104 |
| **Balance as at December 31,** | | | 34,319 | 37,225 | 34,111 | 5,930 |

The maturity analysis of placements with banks is given in Note 60 on pages 348 and 349.

## 31. Derivative financial assets

**ACCOUNTING POLICY**

The Bank uses derivatives such as interest rate swaps, foreign currency swaps, forward foreign exchange contracts, currency options, etc. Derivative financial assets are recorded at fair value. Changes in the fair value of derivatives are included in "Net Gains/(Losses) from Trading" in the Income Statement.

Under SLFRS 9, embedded derivatives are not separated from a host financial asset and are classified entirely based on the business model and their contractual terms.

Derivatives embedded in non-financial host contracts are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the Income Statement.

| *As at December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Derivative financial assets – Held for trading** | | | | | | |
| **Foreign currency derivatives** | | | 8,292,871 | 3,245,120 | 8,292,871 | 3,245,120 |
| Currency swaps | | | 6,937,076 | 2,672,049 | 6,937,076 | 2,672,049 |
| Forward contracts | | | 1,355,230 | 572,517 | 1,355,230 | 572,517 |
| Spot contracts | | | 565 | 170 | 565 | 170 |
| Currency options | | | – | 384 | – | 384 |
| **Derivative financial assets – Cash flow hedges held for risk management** | | | | | | |
| Interest rate swaps – USD | 31.1 | 292 | 52,220 | – | 52,220 | – |
| **Total** | | | 8,345,091 | 3,245,120 | 8,345,091 | 3,245,120 |

### 31.1 Derivative financial assets – Cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowings denominated in foreign currencies.

During the year, gain (net of tax) of Rs. 92.896 Mn., (2021 – gain (net of tax) of Rs. 46.169 Mn.) relating to the effective portion of cash flow hedges were recognised in OCI.

The maturity analysis of derivative financial assets is given in Note 60 on pages 348 and 349.

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## 32. Financial assets recognised through profit or loss – measured at fair value

ACCOUNTING POLICY

This includes financial assets that are held for trading purposes. The financial assets are classified as held for trading if:

- They are acquired principally for the purpose of selling or repurchasing in the near term; or
- They are held as part of portfolio that is managed together for short-term profit or position taking; or
- They form part of derivative financial instruments entered into by the Group that are not financial guaranteed contracts or designated as hedging instruments in effective hedging relationships.

Financial assets held for trading are measured at fair value through profit or loss in the SOFP. Interest and dividend income are recorded in "Interest Income" and "Net Gains/(Losses) from Trading" respectively in the Income Statement, according to the terms of the contract, or when the right to receive the payment has been established.

Financial assets held for trading include instruments such as Government and other debt securities and equity instruments that have been acquired principally for the purpose of selling or repurchasing in the near term.

Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVOCI and amortised cost.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Government securities | 32.1 | 293 | 22,848,251 | 21,839,251 | 22,848,251 | 21,839,251 |
| Equity securities | 32.2 | 293 | 2,024,806 | 1,596,872 | 2,024,806 | 1,596,872 |
| **Total** | | | 24,873,057 | 23,436,123 | 24,873,057 | 23,436,123 |

The maturity analysis of financial assets recognised through profit or loss is given in Note 60 on pages 348 and 349.

### 32.1 Government securities

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Treasury Bills | 11,703,803 | 7,565,140 | 11,703,803 | 7,565,140 |
| Treasury Bonds | 11,144,448 | 14,274,111 | 11,144,448 | 14,274,111 |
| **Total** | 22,848,251 | 21,839,251 | 22,848,251 | 21,839,251 |

### 32.2 Equity securities – Group and Bank

| | **As at December 31, 2022** | | | | As at December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| Sector/Name of the Company | **Number of shares** | **Market price Rs.** | **Market value Rs. '000** | **Cost of the investment Rs. '000** | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of the investment Rs. '000 |
| **Application Software** | | | | | | | | |
| hSenid Business Solutions Limited | 1,520,900 | 17.00 | 25,855 | 29,080 | 20,900 | 34.60 | 723 | 261 |
| **Sub total** | | | 25,855 | 29,080 | | | 723 | 261 |
| **Automobiles and Components** | | | | | | | | |
| Kelani Tyres PLC | 71,000 | 58.00 | 4,118 | 5,836 | 71,000 | 98.60 | 7,001 | 5,836 |
| **Subtotal** | | | 4,118 | 5,836 | | | 7,001 | 5,836 |

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| Sector/Name of the Company | As at December 31, 2022 | | | | As at December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Number of shares** | **Market price Rs.** | **Market value Rs. '000** | **Cost of the investment Rs. '000** | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of the investment Rs. '000 |
| **Banks** | | | | | | | | |
| DFCC Bank PLC | 3,869 | 32.00 | 124 | 256 | 3,682 | 60.00 | 221 | 244 |
| Hatton National Bank PLC | 297,588 | 78.90 | 23,480 | 36,259 | 292,321 | 135.00 | 39,463 | 35,528 |
| Hatton National Bank PLC (Non-voting) | 244,978 | 70.00 | 17,148 | 26,360 | 240,249 | 122.25 | 29,370 | 25,760 |
| National Development Bank PLC | 379,069 | 32.00 | 12,130 | 46,028 | 356,160 | 68.90 | 24,539 | 44,426 |
| Nations Trust Bank PLC | 424,955 | 46.20 | 19,633 | 25,600 | 400,000 | 55.00 | 22,000 | 24,200 |
| Sampath Bank PLC | 619,311 | 34.20 | 21,180 | 28,331 | 619,311 | 52.10 | 32,266 | 28,331 |
| Seylan Bank PLC | 1,218 | 31.60 | 38 | 57 | 1,139 | 44.00 | 50 | 53 |
| **Subtotal** | | | 93,733 | 162,891 | | | 147,909 | 158,542 |
| **Capital Goods** | | | | | | | | |
| Access Engineering PLC | 500,000 | 10.70 | 5,350 | 12,557 | 500,000 | 31.90 | 15,950 | 12,557 |
| ACL Cables PLC | – | – | – | – | 170,000 | 100.25 | 17,043 | 3,125 |
| Aitken Spence PLC | 210,000 | 128.00 | 26,880 | 8,494 | 210,000 | 82.40 | 17,304 | 8,494 |
| Colombo Dockyard PLC | 75,000 | 59.00 | 4,425 | 16,685 | 75,000 | 79.40 | 5,955 | 16,685 |
| Hayleys PLC | – | – | – | – | 80,000 | 130.00 | 10,400 | 2,257 |
| Hemas Holdings PLC | 300,000 | 56.40 | 16,920 | 23,201 | 300,000 | 66.90 | 20,070 | 23,201 |
| John Keells Holdings PLC | 200,000 | 135.25 | 27,050 | 31,178 | 200,000 | 150.00 | 30,000 | 31,178 |
| Renuka Holdings PLC | 121,418 | 13.80 | 1,676 | 3,227 | 117,158 | 19.40 | 2,273 | 3,180 |
| Renuka Holdings PLC (Non-voting) | 276,311 | 12.80 | 3,537 | 5,064 | 265,368 | 13.10 | 3,476 | 4,958 |
| Royal Ceramics Lanka PLC | – | – | – | – | 200,000 | 78.10 | 15,620 | 2,224 |
| **Subtotal** | | | 85,838 | 100,406 | | | 138,091 | 107,859 |
| **Consumer Durables and Apparel** | | | | | | | | |
| Teejay Lanka PLC | 1,000,000 | 31.70 | 31,700 | 43,459 | – | – | – | – |
| **Subtotal** | | | 31,700 | 43,459 | | | – | – |
| **Consumer Services** | | | | | | | | |
| John Keells Hotels PLC | 267,608 | 16.50 | 4,416 | 3,473 | 267,608 | 14.70 | 3,934 | 3,473 |
| Tal Lanka Hotels PLC | 212,390 | 16.40 | 3,483 | 6,625 | 212,390 | 22.10 | 4,694 | 6,625 |
| **Subtotal** | | | 7,899 | 10,098 | | | 8,628 | 10,098 |
| **Diversified Financials** | | | | | | | | |
| Central Finance Company PLC | 205,782 | 62.50 | 12,861 | 19,420 | 205,782 | 93.00 | 19,138 | 19,420 |
| Citizen Development Business Finance PLC (Non-voting) | 105,390 | 53.40 | 5,628 | 3,398 | 105,390 | 88.80 | 9,359 | 3,398 |
| Lanka Ventures PLC | 100,000 | 32.60 | 3,260 | 3,033 | 100,000 | 55.00 | 5,500 | 3,033 |
| People's Leasing & Finance PLC | 1,764,126 | 5.00 | 8,821 | 21,557 | 1,557,692 | 10.70 | 16,667 | 19,963 |
| VISA Inc. | 19,424 | USD.207.76 | 1,481,040 | – | 19,424 | USD.216.71 | 841,875 | – |
| **Subtotal** | | | 1,511,610 | 47,408 | | | 892,539 | 45,814 |
| **Energy** | | | | | | | | |
| Lanka IOC PLC | – | – | – | – | 685,975 | 73.20 | 50,213 | 15,013 |
| **Subtotal** | | | – | – | | | 50,213 | 15,013 |
| **Food and Staples Retailing** | | | | | | | | |
| Cargills (Ceylon) PLC | 103,935 | 234.75 | 24,399 | 21,103 | 65,000 | 215.25 | 13,991 | 14,986 |
| **Sub total** | | | 24,399 | 21,103 | | | 13,991 | 14,986 |

| Sector/Name of the Company | As at December 31, 2022 | | | | As at December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of the investment Rs. '000 | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of the investment Rs. '000 |
| **Food, Beverage and Tobacco** | | | | | | | | |
| Ceylon Cold Stores PLC | 500,000 | 36.90 | 18,450 | 21,488 | 25,000 | 530.00 | 13,250 | 14,789 |
| Ceylon Grain Elevators PLC | 250,000 | 80.50 | 20,125 | 18,156 | 250,000 | 121.75 | 30,438 | 18,156 |
| Kotagala Plantations PLC | 302,625 | 7.70 | 2,330 | 9,172 | 302,625 | 7.70 | 2,330 | 9,172 |
| Lanka Milk Foods (CWE) PLC | 250,000 | 123.75 | 30,938 | 27,866 | 250,000 | 268.75 | 67,188 | 27,866 |
| Lion Brewery Ceylon PLC | 20,000 | 559.50 | 11,190 | 11,021 | 20,000 | 550.00 | 11,000 | 11,021 |
| Melstacorp PLC | 245,960 | 46.20 | 11,363 | 9,814 | 245,960 | 56.10 | 13,798 | 9,814 |
| Pelwatte Sugar Industries PLC | 12,300 | 0.10 | 1 | 351 | 12,300 | 0.10 | 1 | 351 |
| Renuka Foods PLC (Non-voting) | – | – | – | – | 1,000 | 14.00 | 14 | 15 |
| **Subtotal** | | | 94,397 | 97,868 | | | 138,019 | 91,184 |
| **Health Care Equipment and Services** | | | | | | | | |
| Ceylon Hospitals PLC | 121,900 | 145.00 | 17,676 | 12,868 | 121,900 | 151.00 | 18,407 | 12,868 |
| Ceylon Hospitals PLC (Non-voting) | 61,100 | 110.00 | 6,721 | 4,423 | 61,100 | 123.50 | 7,546 | 4,423 |
| **Subtotal** | | | 24,397 | 17,291 | | | 25,953 | 17,291 |
| **Insurance** | | | | | | | | |
| HNB Assurance PLC | 350,000 | 42.90 | 15,015 | 19,339 | 350,000 | 48.40 | 16,940 | 19,339 |
| People's Insurance PLC | – | – | – | – | 126,500 | 34.30 | 4,339 | 1,898 |
| Softlogic Life Insurance PLC | – | – | – | – | 750,000 | 71.00 | 53,250 | 24,664 |
| **Subtotal** | | | 15,015 | 19,339 | | | 74,529 | 45,901 |
| **Materials** | | | | | | | | |
| Chevron Lubricants Lanka PLC | 100,000 | 96.50 | 9,650 | 10,618 | 100,000 | 113.00 | 11,300 | 10,618 |
| CIC Holdings PLC (Non-voting) | 408,100 | 55.60 | 22,690 | 7,391 | 408,100 | 49.10 | 20,038 | 7,391 |
| Dipped Products PLC | – | – | – | – | 100,000 | 50.70 | 5,070 | 1,212 |
| Haycarb PLC | 205,630 | 57.60 | 11,844 | 3,055 | 205,630 | 76.80 | 15,792 | 3,055 |
| JAT Holdings PLC | 1,000,000 | 12.40 | 12,400 | 22,999 | 1,000,000 | 21.50 | 21,500 | 22,999 |
| **Subtotal** | | | 56,584 | 44,063 | | | 73,700 | 45,275 |
| **Real Estate** | | | | | | | | |
| Overseas Reality Ceylon PLC | 183,320 | 14.90 | 2,731 | 2,717 | 183,320 | 19.20 | 3,520 | 2,717 |
| **Subtotal** | | | 2,731 | 2,717 | | | 3,520 | 2,717 |
| **Telecommunication Services** | | | | | | | | |
| Dialog Axiata PLC | 3,515,672 | 8.50 | 29,883 | 31,299 | 1,399,172 | 10.90 | 15,251 | 11,442 |
| **Subtotal** | | | 29,883 | 31,299 | | | 15,251 | 11,442 |
| **Transportation** | | | | | | | | |
| Expolanka PLC | 70,000 | 182.25 | 12,758 | 19,039 | – | – | – | – |
| **Subtotal** | | | 12,758 | 19,039 | | | – | – |
| **Utilities** | | | | | | | | |
| LVL Energy Fund PLC | 648,100 | 6.00 | 3,889 | 6,481 | 648,100 | 10.50 | 6,805 | 6,481 |
| **Subtotal** | | | 3,889 | 6,481 | | | 6,805 | 6,481 |
| **Total** | | | 2,024,806 | 658,378 | | | 1,596,872 | 578,700 |
| **Mark to market gains/(losses)** | | | | 1,366,428 | | | | 1,018,172 |
| **Market value of equity securities** | | | | 2,024,806 | | | | 1,596,872 |

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## 32.3 Industry/Sector composition of equity securities – Group and Bank

| Industry/Sector | As at December 31, 2022 Market value Rs. '000 | Cost of the investment Rs. '000 | % | As at December 31, 2021 Market value Rs. '000 | Cost of the investment Rs. '000 | % |
|---|---|---|---|---|---|---|
| Application Software | 25,855 | 29,080 | 1.28 | 723 | 261 | 0.05 |
| Automobiles and Components | 4,118 | 5,836 | 0.20 | 7,001 | 5,836 | 0.44 |
| Banks | 93,733 | 162,891 | 4.63 | 147,909 | 158,542 | 9.26 |
| Capital Goods | 85,838 | 100,406 | 4.24 | 138,091 | 107,859 | 8.65 |
| Consumer Durables and Apparel | 31,700 | 43,459 | 1.57 | – | – | 0.00 |
| Consumer Services | 7,899 | 10,098 | 0.39 | 8,628 | 10,098 | 0.54 |
| Diversified Financials | 1,511,610 | 47,408 | 74.66 | 892,539 | 45,814 | 55.87 |
| Energy | – | – | 0.00 | 50,213 | 15,013 | 3.14 |
| Food and Staples Retailing | 24,399 | 21,103 | 1.21 | 13,991 | 14,986 | 0.88 |
| Food, Beverage and Tobacco | 94,397 | 97,868 | 4.66 | 138,019 | 91,184 | 8.64 |
| Health Care Equipment and Services | 24,397 | 17,291 | 1.20 | 25,953 | 17,291 | 1.63 |
| Insurance | 15,015 | 19,339 | 0.74 | 74,529 | 45,901 | 4.67 |
| Materials | 56,584 | 44,063 | 2.79 | 73,700 | 45,275 | 4.62 |
| Real Estate | 2,731 | 2,717 | 0.13 | 3,520 | 2,717 | 0.22 |
| Telecommunication Services | 29,883 | 31,299 | 1.48 | 15,251 | 11,442 | 0.96 |
| Transportation | 12,758 | 19,039 | 0.63 | – | – | – |
| Utilities | 3,889 | 6,481 | 0.19 | 6,805 | 6,481 | 0.43 |
| **Subtotal** | 2,024,806 | 658,378 | 100.00 | 1,596,872 | 578,700 | 100.00 |
| **Mark to market gains/(losses)** | | 1,366,428 | | | 1,018,172 | |
| **Market value of equity securities** | 2,024,806 | 2,024,806 | 100.00 | 1,596,872 | 1,596,872 | 100.00 |

## 33. Financial assets at amortised cost – loans and advances to other customers

**ACCOUNTING POLICY**

Financial assets at amortised cost – loans and advances to other customers includes, Loans and Advances and Lease Receivables of the Group.

As per SLFRS 9, "Loans and advances to other customers" are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

When the Group is the lessor in a lease agreement that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases, net of initial rentals received, unearned lease income and provision for impairment, are classified as lease receivable and are presented within "Loans and advances to other customers" in the Statement of Financial Position.

After initial measurement, "Loans and advances to other customers" are subsequently measured at gross carrying amount using the EIR, less provision for impairment, except when the Group designates loans and advances at fair value through profit or loss. EIR is calculated by taking into account any discount or premium on acquisition and fees and costs. The amortisation is included in "Interest Income", while the losses arising from impairment are recognised in "Impairment charges and other losses" in the Income Statement.

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| As at December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Gross loans and advances | | | 1,246,170,215 | 1,094,930,882 | 1,219,667,243 | 1,078,685,128 |
| Stage 1 | | | 951,723,344 | 857,740,593 | 931,509,687 | 845,769,327 |
| Stage 2 | | | 176,900,079 | 156,082,998 | 173,418,701 | 153,840,165 |
| Stage 3 (*) | | | 117,546,792 | 81,107,291 | 114,738,855 | 79,075,636 |
| Less: Provision for impairment | 33.2 (a) & 33.2 (b) | 298 | 90,677,688 | 65,346,807 | 89,224,664 | 64,066,548 |
| Stage 1 | | | 14,799,919 | 10,181,101 | 14,598,587 | 10,027,938 |
| Stage 2 | | | 28,559,919 | 19,165,658 | 28,248,676 | 18,973,409 |
| Stage 3 | | | 47,317,850 | 36,000,048 | 46,377,401 | 35,065,201 |
| **Net loans and advances** | | | 1,155,492,527 | 1,029,584,075 | 1,130,442,579 | 1,014,618,580 |

*(*) As at December 31, 2022, gross loans and advances in stage 3 does not include any facilities granted against guarantees issued by the Government of Sri Lanka. (2021 – Rs. 915.433 Mn.)*

The maturity analysis of loans and advances to other customers is given in Note 60 on pages 348 and 349.

## 33.1 Analysis of financial assets at amortised cost – loans and advances to other customers

### 33.1 (a) By product

| As at December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Loans and advances** | | | | | | |
| Overdrafts | | | 143,318,360 | 115,975,321 | 139,666,938 | 114,325,421 |
| Trade finance | | | 119,167,451 | 93,498,752 | 118,421,172 | 92,849,637 |
| Lease/hire purchase receivable | 33.3 | 299 | 35,722,265 | 38,903,168 | 33,664,519 | 37,133,907 |
| Credit cards | | | 17,961,272 | 16,397,129 | 17,816,556 | 16,377,486 |
| Pawning | | | 16,389,557 | 7,649,037 | 16,389,557 | 7,649,037 |
| Staff loans | | | 13,651,705 | 13,097,185 | 13,627,366 | 13,076,333 |
| Housing loans | | | 76,697,598 | 74,664,952 | 76,697,598 | 74,664,952 |
| Personal loans | | | 44,163,456 | 51,358,069 | 43,477,949 | 50,913,883 |
| Term loans | | | | | | |
| Short term | | | 234,491,161 | 180,443,934 | 234,188,617 | 179,933,922 |
| Long term | | | 512,885,849 | 455,982,125 | 493,995,430 | 444,799,340 |
| Bills of exchange | | | 31,721,541 | 46,961,210 | 31,721,541 | 46,961,210 |
| **Total** | | | 1,246,170,215 | 1,094,930,882 | 1,219,667,243 | 1,078,685,128 |

### 33.1 (b) By currency

| As at December 31, | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Sri Lankan Rupee | 842,120,414 | 824,624,056 | 834,836,605 | 816,304,202 |
| United States Dollar | 228,254,025 | 169,120,449 | 217,649,967 | 165,546,832 |
| Great Britain Pound | 2,307,564 | 1,369,259 | 2,307,564 | 1,369,259 |
| Euro | 6,239,416 | 5,507,223 | 6,239,416 | 5,507,223 |
| Australian Dollar | 721,089 | 502,605 | 721,089 | 502,605 |
| Japanese Yen | 252,705 | 175,531 | 252,705 | 175,531 |
| Bangladesh Taka | 157,652,152 | 89,272,959 | 157,652,152 | 89,272,959 |
| Maldivian Rufiyaa | 8,074,579 | 4,074,842 | – | – |
| Others | 548,271 | 283,958 | 7,745 | 6,517 |
| **Total** | 1,246,170,215 | 1,094,930,882 | 1,219,667,243 | 1,078,685,128 |

### 33.1 (c) By industry

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Agriculture and fishing | 126,475,449 | 93,304,092 | 126,178,180 | 92,952,360 |
| Arts, entertainment and recreation | 1,488,736 | 1,172,974 | 1,488,736 | 1,172,974 |
| Construction | 54,627,371 | 56,370,508 | 53,316,961 | 54,881,005 |
| Consumption and other | 129,274,363 | 168,260,117 | 129,185,331 | 168,136,211 |
| Education | 3,774,937 | 4,295,475 | 3,541,598 | 4,096,411 |
| Financial services | 95,254,707 | 70,326,837 | 97,270,834 | 71,600,700 |
| Healthcare, social services and support services | 24,631,507 | 26,354,594 | 22,378,082 | 24,365,739 |
| Information technology and communication services | 17,387,197 | 15,155,899 | 17,387,197 | 15,155,899 |
| Infrastructure development | 33,981,732 | 26,786,632 | 33,938,512 | 26,743,469 |
| Lending to overseas entities | 208,063,238 | 144,737,204 | 188,844,073 | 136,811,304 |
| Manufacturing | 152,676,544 | 147,215,372 | 152,344,919 | 146,739,879 |
| Professional, scientific, and technical activities | 27,476,630 | 26,850,133 | 27,476,630 | 26,850,133 |
| Tourism | 86,703,188 | 68,495,166 | 85,893,270 | 68,147,775 |
| Transport and storage | 22,594,696 | 20,968,768 | 22,368,927 | 20,819,383 |
| Wholesale and retail trade | 261,759,920 | 224,637,111 | 258,053,993 | 220,211,886 |
| **Total** | 1,246,170,215 | 1,094,930,882 | 1,219,667,243 | 1,078,685,128 |

## 33.2 Movement in provision for impairment during the year

### 33.2 (a) Group

| | Note | Page No. | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Balance as at January 01, | | | 10,181,101 | 6,567,755 | 19,165,658 | 12,396,301 | 36,000,048 | 33,065,890 | 65,346,807 | 52,029,946 |
| Charge/(write back) to the Income Statement | 18.1 | 279 | 2,380,186 | 3,607,700 | 8,141,759 | 6,767,014 | 11,774,774 | 4,572,554 | 22,296,719 | 14,947,268 |
| Net write-off during the year | | | – | (482) | – | (158) | (3,045,410) | (856,261) | (3,045,410) | (856,901) |
| Exchange rate variance on foreign currency provisions | | | 2,238,632 | 6,128 | 1,252,502 | 2,501 | 3,608,687 | 95,686 | 7,099,821 | 104,315 |
| Interest accrued on impaired loans and advances | 13.1 | 272 | – | – | – | – | (1,295,278) | (1,174,854) | (1,295,278) | (1,174,854) |
| Other movements | | | – | – | – | – | 275,029 | 297,033 | 275,029 | 297,033 |
| **Balance as at December 31,** | | | 14,799,919 | 10,181,101 | 28,559,919 | 19,165,658 | 47,317,850 | 36,000,048 | 90,677,688 | 65,346,807 |

### 33.2 (b) Bank

| | Note | Page No. | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Balance as at January 01, | | | 10,027,938 | 6,470,880 | 18,973,409 | 12,244,433 | 35,065,201 | 32,281,139 | 64,066,548 | 50,996,452 |
| Charge/(write back) to the Income Statement | 18.2 | 279 | 2,389,315 | 3,552,303 | 8,028,839 | 6,729,149 | 11,543,632 | 4,271,910 | 21,961,786 | 14,553,362 |
| Net write-off during the year | | | – | (482) | – | (158) | (2,775,787) | (691,667) | (2,775,787) | (692,307) |
| Exchange rate variance on foreign currency provisions | | | 2,181,334 | 5,237 | 1,246,428 | (15) | 3,581,147 | 93,581 | 7,008,909 | 98,803 |
| Interest accrued on impaired loans and advances | 13.1 | 272 | – | – | – | – | (1,216,457) | (1,132,155) | (1,216,457) | (1,132,155) |
| Other movements | | | – | – | – | – | 179,665 | 242,393 | 179,665 | 242,393 |
| **Balance as at December 31,** | | | 14,598,587 | 10,027,938 | 28,248,676 | 18,973,409 | 46,377,401 | 35,065,201 | 89,224,664 | 64,066,548 |

### 33.3 Lease/hire purchase receivable

| As at December 31, | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Gross lease/hire purchase receivable | 33.3 (a) & 33.3 (b) | 299 | 35,722,265 | 38,903,168 | 33,664,519 | 37,133,907 |
| Within one year | | | 16,323,011 | 16,083,734 | 14,985,387 | 15,118,010 |
| From one to five years | | | 18,923,060 | 22,587,556 | 18,203,257 | 21,784,617 |
| After five years | | | 476,194 | 231,878 | 475,875 | 231,280 |
| Less: Provision for impairment | 33.3 (c) (i) & 33.3 (c) (ii) | 300 | 1,911,698 | 1,225,984 | 1,760,692 | 1,120,043 |
| Stage 1 | | | 307,395 | 146,460 | 302,763 | 141,800 |
| Stage 2 | | | 859,465 | 449,788 | 809,886 | 430,723 |
| Stage 3 | | | 744,838 | 629,736 | 648,043 | 547,520 |
| Net lease/hire purchase receivable | | | 33,810,567 | 37,677,184 | 31,903,827 | 36,013,864 |

### 33.3 (a) Lease/hire purchase receivable – Group

| As at December 31, | Within one year 2022 Rs. '000 | Within one year 2021 Rs. '000 | One to five years 2022 Rs. '000 | One to five years 2021 Rs. '000 | After five years 2022 Rs. '000 | After five years 2021 Rs. '000 | Total 2022 Rs. '000 | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| Total lease/hire purchase receivable | 19,114,885 | 20,086,140 | 21,905,192 | 26,172,436 | 486,124 | 269,681 | 41,506,201 | 46,528,257 |
| Less: Unearned lease/hire purchase income | 2,791,874 | 4,002,406 | 2,982,132 | 3,584,880 | 9,930 | 37,803 | 5,783,936 | 7,625,089 |
| Gross lease/hire purchase receivable | 16,323,011 | 16,083,734 | 18,923,060 | 22,587,556 | 476,194 | 231,878 | 35,722,265 | 38,903,168 |
| Less: Provision for impairment | 1,180,501 | 767,400 | 725,548 | 450,994 | 5,649 | 7,590 | 1,911,698 | 1,225,984 |
| Stage 1 | 147,495 | 63,619 | 157,076 | 82,474 | 2,824 | 367 | 307,395 | 146,460 |
| Stage 2 | 420,980 | 192,650 | 437,250 | 250,460 | 1,235 | 6,678 | 859,465 | 449,788 |
| Stage 3 | 612,026 | 511,131 | 131,222 | 118,060 | 1,590 | 545 | 744,838 | 629,736 |
| Net lease/hire purchase receivable | 15,142,510 | 15,316,334 | 18,197,512 | 22,136,562 | 470,545 | 224,288 | 33,810,567 | 37,677,184 |

### 33.3 (b) Lease/hire purchase receivable – Bank

| As at December 31, | Within one year 2022 Rs. '000 | Within one year 2021 Rs. '000 | One to five years 2022 Rs. '000 | One to five years 2021 Rs. '000 | After five years 2022 Rs. '000 | After five years 2021 Rs. '000 | Total 2022 Rs. '000 | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| Total lease/hire purchase receivable | 17,527,817 | 18,934,294 | 20,960,378 | 25,222,489 | 485,798 | 269,043 | 38,973,993 | 44,425,826 |
| Less: Unearned lease/hire purchase income | 2,542,430 | 3,816,284 | 2,757,121 | 3,437,872 | 9,923 | 37,763 | 5,309,474 | 7,291,919 |
| Gross lease/hire purchase receivable | 14,985,387 | 15,118,010 | 18,203,257 | 21,784,617 | 475,875 | 231,280 | 33,664,519 | 37,133,907 |
| Less: Provision for impairment | 1,084,830 | 709,568 | 670,235 | 402,921 | 5,627 | 7,554 | 1,760,692 | 1,120,043 |
| Stage 1 | 144,561 | 61,075 | 155,379 | 80,359 | 2,823 | 366 | 302,763 | 141,800 |
| Stage 2 | 389,569 | 182,243 | 419,089 | 241,809 | 1,228 | 6,671 | 809,886 | 430,723 |
| Stage 3 | 550,700 | 466,250 | 95,767 | 80,753 | 1,576 | 517 | 648,043 | 547,520 |
| Net lease/hire purchase receivable | 13,900,557 | 14,408,442 | 17,533,022 | 21,381,696 | 470,248 | 223,726 | 31,903,827 | 36,013,864 |

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### 33.3 (c) Movement in provision for impairment during the year

#### 33.3 (c) (i) Group

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | 146,460 | 95,265 | 449,788 | 258,301 | 629,736 | 807,656 | 1,225,984 | 1,161,222 |
| Charge/(write back) to the Income Statement | 158,933 | 51,195 | 400,322 | 191,487 | 196,417 | (172,300) | 755,672 | 70,382 |
| Net write-off during the year | – | – | – | – | (63,878) | 7,035 | (63,878) | 7,035 |
| Exchange rate variance on foreign currency provisions | 2,002 | – | 9,355 | – | 2,088 | – | 13,445 | – |
| Interest accrued on impaired loans and advances | – | – | – | – | (36,769) | (12,131) | (36,769) | (12,131) |
| Other movements | – | – | – | – | 17,244 | (524) | 17,244 | (524) |
| **Balance as at December 31,** | 307,395 | 146,460 | 859,465 | 449,788 | 744,838 | 629,736 | 1,911,698 | 1,225,984 |

#### 33.3 (c) (ii) Bank

| | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | 141,800 | 91,742 | 430,723 | 229,125 | 547,520 | 683,256 | 1,120,043 | 1,004,123 |
| Charge/(write back) to the Income Statement | 158,961 | 50,058 | 369,808 | 201,598 | 181,838 | (114,327) | 710,607 | 137,329 |
| Net write-off during the year | – | – | – | – | (63,878) | (8,754) | (63,878) | (8,754) |
| Exchange rate variance on foreign currency provisions | 2,002 | – | 9,355 | – | 2,088 | – | 13,445 | – |
| Interest accrued on impaired loans and advances | – | – | – | – | (36,769) | (12,131) | (36,769) | (12,131) |
| Other movements | – | – | – | – | 17,244 | (524) | 17,244 | (524) |
| **Balance as at December 31,** | 302,763 | 141,800 | 809,886 | 430,723 | 648,043 | 547,520 | 1,760,692 | 1,120,043 |

## 34. Financial assets at amortised cost – debt and other financial instruments

ACCOUNTING POLICY

As per SLFRS 9, Financial assets are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these assets are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest Income" while the losses arising from impairment are recognised in "impairment charges for loans and other losses" in the Income Statement.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | | | **2022** | 2021 | **2022** | 2021 |
| | Note | Page No. | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Government Securities – Sri Lanka | | | 761,687,245 | 346,865,782 | 760,873,767 | 346,474,056 |
| Treasury Bonds (*) | | | 536,463,694 | 262,947,127 | 536,404,874 | 262,947,127 |
| Sri Lanka Sovereign Bonds (SLSB) (*) | | | 196,888,787 | 83,526,929 | 196,888,787 | 83,526,929 |
| Sri Lanka Development Bonds (SLDB) (*) | | | 28,334,764 | 391,726 | 27,580,106 | – |
| Government Securities – Bangladesh | | | 27,951,009 | 21,778,691 | 27,951,009 | 21,778,691 |
| Treasury Bills | | | 11,163,594 | 4,664,885 | 11,163,594 | 4,664,885 |
| Treasury Bonds | | | 16,787,415 | 17,113,806 | 16,787,415 | 17,113,806 |
| Government Securities – Maldives | | | 35,136,594 | 15,605,634 | – | – |
| Treasury Bills | | | 35,136,594 | 15,605,634 | – | – |
| Other instruments | | | 7,795,564 | 6,832,912 | 7,795,564 | 6,832,912 |
| Debentures | 34.2 | 301 | 6,521,553 | 6,521,553 | 6,521,553 | 6,521,553 |
| Trust certificates | 34.3 | 301 | 1,273,485 | 309,749 | 1,273,485 | 309,749 |
| Corporate investments in Bangladesh | 34.4 | 302 | 526 | 1,610 | 526 | 1,610 |
| Less: Provision for impairment | 34.1(a) & 34.1(b) | 301 | 70,920,178 | 5,692,421 | 70,685,041 | 5,667,770 |
| **Total** | | | 761,650,234 | 385,390,598 | 725,935,299 | 369,417,889 |

*(*) The Bank reclassified bulk of its Treasury Bond Portfolio, majority of Sri Lanka Development Bond (SLDB) portfolio and entire Sri Lanka Sovereign Bond (SLSB) portfolio to amortised cost from Fair Value Through Other Comprehensive Income (FVOCI) category during the year. Refer Note 35.1 on page 303 .*

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## 34.1 Movement in provision for impairment during the year

### 34.1 (a) Group

| | Note | Page No. | Stage 1 2022 Rs. '000 | Stage 1 2021 Rs. '000 | Stage 2 2022 Rs. '000 | Stage 2 2021 Rs. '000 | Stage 3 2022 Rs. '000 | Stage 3 2021 Rs. '000 | Total 2022 Rs. '000 | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 01, | | | 5,539,551 | 1,962,972 | – | – | 152,870 | 152,870 | 5,692,421 | 2,115,842 |
| Charge/(write back) to the Income Statement | 18.1 | 279 | (5,342,455) | 3,576,138 | 59,997,100 | – | – | – | 54,654,645 | 3,576,138 |
| Exchange rate variance on foreign currency provisions | | | 39,448 | 441 | 10,533,664 | – | – | – | 10,573,112 | 441 |
| **Balance as at December 31,** | | | 236,544 | 5,539,551 | 70,530,764 | – | 152,870 | 152,870 | 70,920,178 | 5,692,421 |

### 34.1 (b) Bank

| | Note | Page No. | Stage 1 2022 Rs. '000 | Stage 1 2021 Rs. '000 | Stage 2 2022 Rs. '000 | Stage 2 2021 Rs. '000 | Stage 3 2022 Rs. '000 | Stage 3 2021 Rs. '000 | Total 2022 Rs. '000 | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 01, | | | 5,514,900 | 1,956,021 | – | – | 152,870 | 152,870 | 5,667,770 | 2,108,891 |
| Charge/(write back) to the Income Statement | 18.2 | 279 | (5,513,493) | 3,558,879 | 59,997,100 | – | – | – | 54,483,607 | 3,558,879 |
| Exchange rate variance on foreign currency provisions | | | – | – | 10,533,664 | – | – | – | 10,533,664 | – |
| **Balance as at December 31,** | | | 1,407 | 5,514,900 | 70,530,764 | – | 152,870 | 152,870 | 70,685,041 | 5,667,770 |

The maturity analysis of financial assets at amortised cost – debt and other financial instruments is given in Note 60 on pages 348 and 349.

## 34.2 Debentures

| *As at December 31,* | GROUP 2022 Number of debentures | GROUP 2022 Gross carrying value Rs. '000 | GROUP 2021 Number of debentures | GROUP 2021 Gross carrying value Rs. '000 | BANK 2022 Number of debentures | BANK 2022 Gross carrying value Rs. '000 | BANK 2021 Number of debentures | BANK 2021 Gross carrying value Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| Bogawantalawa Tea Estate PLC | 919,100 | 80,317 | 919,100 | 80,317 | 919,100 | 80,317 | 919,100 | 80,317 |
| MTD Walkers PLC | 1,528,701 | 152,870 | 1,528,701 | 152,870 | 1,528,701 | 152,870 | 1,528,701 | 152,870 |
| Singer Finance (Lanka) PLC | 3,000,000 | 328,529 | 3,000,000 | 328,529 | 3,000,000 | 328,529 | 3,000,000 | 328,529 |
| Ceylon Electricity Board | 50,000,000 | 5,333,014 | 50,000,000 | 5,333,014 | 50,000,000 | 5,333,014 | 50,000,000 | 5,333,014 |
| People's Leasing & Finance PLC | 6,070,000 | 626,823 | 6,070,000 | 626,823 | 6,070,000 | 626,823 | 6,070,000 | 626,823 |
| **Subtotal** | | 6,521,553 | | 6,521,553 | | 6,521,553 | | 6,521,553 |

## 34.3 Trust certificates

| *As at December 31,* | GROUP 2022 Gross carrying value Rs. '000 | GROUP 2021 Gross carrying value Rs. '000 | BANK 2022 Gross carrying value Rs. '000 | BANK 2021 Gross carrying value Rs. '000 |
|---|---|---|---|---|
| Richard Pieris Arpico Finance Ltd. | – | 309,749 | – | 309,749 |
| Vallibel Finance PLC | 1,273,485 | – | 1,273,485 | – |
| **Subtotal** | 1,273,485 | 309,749 | 1,273,485 | 309,749 |

## 34.4 Corporate investments in Bangladesh

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** **Gross carrying value** **Rs. '000** | 2021 Gross carrying value Rs. '000 | **2022** **Gross carrying value** **Rs. '000** | 2021 Gross carrying value Rs. '000 |
| Prize bonds | 526 | 1,610 | 526 | 1,610 |
| **Subtotal** | 526 | 1,610 | 526 | 1,610 |

## 35. Financial assets measured at fair value through other comprehensive income

ACCOUNTING POLICY

As per SLFRS 9, this comprises debt instruments measured at FVOCI and equity instruments designated at FVOCI.

### Debt instruments at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, foreign exchange gains and losses, ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

### Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, 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 instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss in "Net other operating income" when the right of the payment has been established. Equity instruments at FVOCI are not subject to an impairment assessment.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| **Government securities** | | | | | | |
| Government securities – Sri Lanka | 35.1 | 303 | 118,436,200 | 340,513,595 | 116,840,307 | 340,023,255 |
| Less: Provision for impairment | 35.2 | 303 | – | 5,009,649 | – | 5,009,649 |
| | | | 118,436,200 | 335,503,946 | 116,840,307 | 335,013,606 |
| **Equity securities** | 35.3 (a) & 35.3 (b) | 303 & 304 | 216,057 | 449,856 | 215,933 | 449,732 |
| Quoted shares | | | 150,566 | 396,346 | 150,566 | 396,346 |
| Unquoted shares | | | 65,491 | 53,510 | 65,367 | 53,386 |
| **Total** | | | 118,652,257 | 335,953,802 | 117,056,240 | 335,463,338 |

The maturity analysis of financial assets measured at fair value through other comprehensive income is given in Note 60 on pages 348 and 349.

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### 35.1 Government securities

| As at December 31, | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Treasury Bills | 103,030,681 | 31,820,664 | 101,434,788 | 31,330,324 |
| Treasury Bonds (*) | 15,405,519 | 234,301,757 | 15,405,519 | 234,301,757 |
| Sri Lanka Sovereign Bonds (SLSB) (*) | – | 13,209,404 | – | 13,209,404 |
| Sri Lanka Development Bonds (SLDB) (*) | – | 61,181,770 | – | 61,181,770 |
| **Subtotal** | 118,436,200 | 340,513,595 | 116,840,307 | 340,023,255 |

*(*) The Bank reclassified bulk of its Treasury Bond Portfolio amounting to Rs. 197.08 Bn., majority of Sri Lanka Development Bond (SLDB) portfolio amounting to Rs. 55.85 Bn., (USD 152.19 Mn.) and entire Sri Lanka Sovereign Bond (SLSB) portfolio amounting to Rs. 39.87 Bn., (USD 108.63 Mn.) from Fair Value Through Other Comprehensive Income (FVOCI) category to Amortised Cost category, with effect from April 01, 2022, in line with the guidelines issued by the CA Sri Lanka in the form of a Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio due to unprecedented changes in the macroeconomic conditions. The fair value of the debt portfolio reclassified on April 01, 2022, and remaining as at December 31, 2022 amounted to Rs. 179.44 Bn., and the cumulative fair value loss thereon amounted to Rs. 83.76 Bn., (Net of tax Rs. 58.63 Bn.).*

### 35.2 Movement in provision for impairment during the year

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Movement in Stage 1 Impairment** | | | | | | |
| Balance as at January 01, | | | 5,009,649 | 1,675,834 | 5,009,649 | 1,675,834 |
| Charge/(write back) to the Income Statement | 18.1 & 18.2 | 279 | (7,349,651) | 3,333,815 | (7,349,651) | 3,333,815 |
| Exchange rate variance on foreign currency provisions | | | 2,340,002 | – | 2,340,002 | – |
| **Balance as at December 31,** | | | – | 5,009,649 | – | 5,009,649 |

### 35.3 Equity securities

#### 35.3 (a) Equity securities – As at December 31, 2022

| Sector/Name of the Company | GROUP Number of shares | GROUP Market price Rs. | GROUP Market value Rs. '000 | GROUP Cost of investment Rs. '000 | BANK Number of shares | BANK Market price Rs. | BANK Market value Rs. '000 | BANK Cost of investment Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| **Quoted shares:** | | | | | | | | |
| **Materials** | | | | | | | | |
| Alumex PLC | 1,428,400 | 7.20 | 10,284 | 9,999 | 1,428,400 | 7.20 | 10,284 | 9,999 |
| **Subtotal** | | | 10,284 | 9,999 | | | 10,284 | 9,999 |
| **Retailing** | | | | | | | | |
| RIL Property PLC | 24,610,964 | 5.70 | 140,282 | 196,888 | 24,610,964 | 5.70 | 140,282 | 196,888 |
| **Subtotal** | | | 140,282 | 196,888 | | | 140,282 | 196,888 |
| **Total – quoted shares** | | | 150,566 | 206,887 | | | 150,566 | 206,887 |
| **Unquoted shares:** | | | | | | | | |
| **Other financial services** | | | | | | | | |
| Central Depository of Bangladesh Ltd. | 3,427,083 | BDT 2.75 | 34,048 | 34,048 | 3,427,083 | BDT 2.75 | 34,048 | 34,048 |
| Credit Information Bureau of Sri Lanka | 5,637 | 100.00 | 564 | 564 | 4,400 | 100.00 | 440 | 440 |
| Lanka Clear (Pvt) Limited | 1,000,000 | 10.00 | 10,000 | 10,000 | 1,000,000 | 10.00 | 10,000 | 10,000 |
| Lanka Financial Services Bureau Limited | 500,000 | 10.00 | 5,000 | 5,000 | 500,000 | 10.00 | 5,000 | 5,000 |
| Lanka Ratings Agency Limited | 689,590 | 12.50 | 8,620 | 8,620 | 689,590 | 12.50 | 8,620 | 8,620 |
| Society for Worldwide Interbank Financial Telecommunication (SWIFT) | 47 | EUR 841.90 | 7,259 | 7,259 | 47 | EUR 841.90 | 7,259 | 7,259 |
| **Total – unquoted shares** | | | 65,491 | 65,491 | | | 65,367 | 65,367 |
| **Total equity securities** | | | 216,057 | 272,378 | | | 215,933 | 272,254 |

### 35.3 (b) Equity securities – As at December 31, 2021

| | GROUP | | | | BANK | | | |
|---|---|---|---|---|---|---|---|---|
| Sector/Name of the Company | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of investment Rs. '000 | Number of shares | Market price Rs. | Market value Rs. '000 | Cost of investment Rs. '000 |
| **Quoted shares:** | | | | | | | | |
| **Materials** | | | | | | | | |
| Alumex PLC | 1,428,400 | 15.90 | 22,712 | 9,999 | 1,428,400 | 15.90 | 22,712 | 9,999 |
| **Subtotal** | | | 22,712 | 9,999 | | | 22,712 | 9,999 |
| **Retailing** | | | | | | | | |
| RIL Property PLC | 26,128,266 | 14.30 | 373,634 | 209,026 | 26,128,266 | 14.30 | 373,634 | 209,026 |
| **Subtotal** | | | 373,634 | 209,026 | | | 373,634 | 209,026 |
| **Total – quoted shares** | | | 396,346 | 219,025 | | | 396,346 | 219,025 |
| **Unquoted shares:** | | | | | | | | |
| **Other financial services** | | | | | | | | |
| Central Depository of Bangladesh Ltd. | 3,427,083 | BDT 2.75 | 22,067 | 22,067 | 3,427,083 | BDT 2.75 | 22,067 | 22,067 |
| Credit Information Bureau of Sri Lanka | 5,637 | 100.00 | 564 | 564 | 4,400 | 100.00 | 440 | 440 |
| Lanka Clear (Pvt) Limited | 1,000,000 | 10.00 | 10,000 | 10,000 | 1,000,000 | 10.00 | 10,000 | 10,000 |
| Lanka Financial Services Bureau Limited | 500,000 | 10.00 | 5,000 | 5,000 | 500,000 | 10.00 | 5,000 | 5,000 |
| Lanka Ratings Agency Limited | 689,590 | 12.50 | 8,620 | 8,620 | 689,590 | 12.50 | 8,620 | 8,620 |
| Society for Worldwide Interbank Financial Telecommunication (SWIFT) | 47 | EUR 841.90 | 7,259 | 7,259 | 47 | EUR 841.90 | 7,259 | 7,259 |
| **Total – unquoted shares** | | | 53,510 | 53,510 | | | 53,386 | 53,386 |
| **Total equity securities** | | | 449,856 | 272,535 | | | 449,732 | 272,411 |

## 36. Investments in subsidiaries

**ACCOUNTING POLICY**

Subsidiaries are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The cost of an acquisition is measured at fair value of the consideration, including contingent consideration. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Subsequent to the initial measurement the Bank continues to recognise the investments in subsidiaries at cost.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date when control ceases.

The Financial Statements of all subsidiaries in the Group have a common financial year which ends on December 31, except for CBC Myanmar Microfinance Company Limited, whose financial year end on March 31. (September 30, up until December 31, 2021).

The reason for using a different reporting date by CBC Myanmar Microfinance Company Limited is due to requirements imposed by the Financial Regulatory Department of Myanmar.

The Financial Statements of the Bank's subsidiaries are prepared using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions, income and expenses are eliminated in full.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent (the Bank) in the form of cash dividend or repayment of loans and advances.

All subsidiaries of the Bank have been incorporated in Sri Lanka except Commex Sri Lanka S.R.L., Commercial Bank of Maldives Private Limited and CBC Myanmar Microfinance Company Limited which were incorporated in Italy, Republic of Maldives and Myanmar respectively.

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| As at December 31, | Note | Page No. | Holding % | GROUP 2022 Cost Rs. '000 | GROUP 2022 Market value/ Directors' valuation Rs. '000 | GROUP 2021 Cost Rs. '000 | GROUP 2021 Market value/ Directors' valuation Rs. '000 | BANK 2022 Cost Rs. '000 | BANK 2022 Market value/ Directors' valuation Rs. '000 | BANK 2021 Cost Rs. '000 | BANK 2021 Market value/ Directors' valuation Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Local subsidiaries:** | | | | | | | | | | | |
| **Quoted:** | | | | | | | | | | | |
| Commercial Development Company PLC | | | 90 | – | – | – | – | 261,198 | 1,031,400 | 261,198 | 1,468,800 |
| (10,800,000 Ordinary Shares) | | | | | | | | | (@ Rs. 95.50) | | (@ Rs. 136.00) |
| (10,800,000 Ordinary Shares as at December 31, 2021) | | | | | | | | | | | |
| **Unquoted:** | | | | | | | | | | | |
| CBC Tech Solutions Limited | | | 100 | – | – | – | – | 5,000 | 5,000 | 5,000 | 5,000 |
| (500,001 Ordinary Shares) | | | | | | | | | | | |
| (500,001 Ordinary Shares as at December 31, 2021) | | | | | | | | | | | |
| Commercial Insurance Brokers (Pvt) Ltd. | | | 60 | – | – | – | – | 375,000 | 375,000 | 375,000 | 375,000 |
| (359,999 Ordinary Shares ) | | | | | | | | | | | |
| (359,999 Ordinary Shares as at December 31, 2021 ) | | | | | | | | | | | |
| **Unquoted:** | | | | | | | | | | | |
| CBC Finance Ltd. | | | 100 | – | – | – | – | 3,791,046 | 3,791,046 | 3,791,046 | 3,791,046 |
| (221,793,474 Ordinary Shares ) | | | | | | | | | | | |
| (221,793,474 Ordinary Shares as at December 31, 2021) | | | | | | | | | | | |
| **Foreign subsidiaries:** | | | | | | | | | | | |
| **Unquoted:** | | | | | | | | | | | |
| Commex Sri Lanka S.R.L. (*) (incorporated in Italy) | | | 100 | – | – | – | – | 370,633 | 327,855 | 370,633 | 327,855 |
| (300,000 Ordinary Shares) | | | | | | | | | | | |
| (300,000 Ordinary Shares as at December 31, 2021) | | | | | | | | | | | |
| Commercial Bank of Maldives Private Limited | | | 55 | – | – | – | – | 984,707 | 984,707 | 984,707 | 984,707 |
| (104,500 Ordinary Shares) | | | | | | | | | | | |
| (104,500 Ordinary Shares as at December 31, 2021) | | | | | | | | | | | |
| CBC Myanmar Microfinance Co. Limited | | | 100 | – | – | – | – | 391,478 | 391,478 | 391,478 | 391,478 |
| (2,420,000 Ordinary Shares) | | | | | | | | | | | |
| (2,420,000 Ordinary Shares as at December 31, 2021) | | | | | | | | | | | |
| **Gross total** | | | | – | – | – | – | 6,179,062 | 6,906,486 | 6,179,062 | 7,343,886 |
| Provision for impairment | 36.1 | 305 | | | | | | (370,633) | – | (370,633) | – |
| **Net total** | | | | – | – | – | – | 5,808,429 | 6,906,486 | 5,808,429 | 7,343,886 |

*(*) The Company is under voluntary liquidation and the Bank has made an announcement to the CSE to that effect*

### 36.1 Movement in provision for impairment o/a subsidiaries during the year

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Balance as at January 01, | | | – | – | 370,633 | 370,633 |
| Charge/(write back) to the Income Statement | 18 | 276 | – | – | – | – |
| **Balance as at December 31,** | | | – | – | 370,633 | 370,633 |

The maturity analysis of investment in subsidiaries is given in Note 60 on pages 348 and 349.

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## 37. Investment in associate

**ACCOUNTING POLICY**

Associates are those entities in which the Group has significant influence, but not control, over the variable returns through its power over the investee. Significant influence is presumed to exist when the Group holds 20% or more of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on "Investments in Associates and Joint Ventures". The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the Accounting Policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Accordingly, under the Equity Method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associates and are reported as a separate line item in the Statement of Financial Position. The Income Statement reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in Equity through OCI. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in associate.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equal the share of losses not recognised previously.

The Group discontinues the use of the Equity Method from the date that it ceases to have significant influence over an associate and accounts for such investments in accordance with the Sri Lanka Accounting Standard – SLFRS 9 on "Financial Instruments".

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

After application of the Equity Method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the loss under "Share of Profit/(loss) of Associate" in the Income Statement.

In the separate Financial Statements, Investments in associates are accounted at cost.

| *As at December 31,* | | | | **2022** | | 2021 | |
|---|---|---|---|---|---|---|---|
| | Incorporation and operation | Ownership interest % | No. of shares | **Cost Rs. '000** | **Carrying value Rs. '000** | Cost Rs. '000 | Carrying value Rs. '000 |
| Equity Investments Lanka Ltd. | Sri Lanka | 22.92 | 4,110,938 | 44,331 | 55,302 | 44,331 | 60,428 |
| | | | | 44,331 | 55,302 | 44,331 | 60,428 |

### 37.1 Reconciliation of summarised financial information

Reconciliation of the summarised financial information to the carrying amount of the interest in the associate recognised in the Consolidated Financial Statements is as follows:

| | | | Equity Investments Lanka Ltd. | |
|---|---|---|---|---|
| | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 |
| **Cost of investments** | | | 44,331 | 44,331 |
| **Add: Share of profit applicable to the Group** | | | | |
| Investment in associate – As at January 01, | | | 16,097 | 19,824 |
| Total comprehensive income | 37.2 (a) | 307 | (5,126) | 384 |
| Share of profit/(loss) of associate, net of tax | | | (3,727) | 1,896 |
| Share of other comprehensive Income/(expense) of associate, net of tax | | | (1,399) | (1,512) |
| Dividend received | | | – | (4,111) |
| **Balance as at December 31,** | | | 55,302 | 60,428 |

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### 37.2 Summarised financial information in respect of the associate is set out below:

#### 37.2 (a) Summarised Income Statement

| *For the year ended December 31,* | Equity Investments Lanka Ltd. | |
|---|---|---|
| | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 |
| Revenue | 24,697 | 41,059 |
| Expenses | (40,960) | (32,788) |
| Income tax | – | – |
| **Profit/(loss) from continuing operations, net of tax** | (16,263) | 8,271 |
| **Group's share of profit/(loss) from continuing operations, net of tax** | (3,727) | 1,896 |
| Other Comprehensive Income/(expense), net of tax | (6,105) | (6,597) |
| Group's share of Other Comprehensive Income/(expense) from continuing operations, net of tax, | (1,399) | (1,512) |
| **Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income** | (5,126) | 384 |

#### 37.2 (b) Summarised Statement of Financial Position

| *As at December 31,* | Equity Investments Lanka Ltd. | |
|---|---|---|
| | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 |
| Non-current assets | 241,776 | 231,839 |
| Current assets | 27,688 | 157,072 |
| Non-current liabilities | (2,740) | (2,042) |
| Current liabilities | (25,440) | (123,220) |
| **Net assets** | 241,284 | 263,649 |
| Group's share of net assets | 55,302 | 60,428 |
| **Carrying amount of interest in associate** | 55,302 | 60,428 |

The Group recognises the share of net assets of the associate under the Equity Method to arrive at the Directors' valuation.

The maturity analysis of investment in associate is given in Note 60 on pages 348 to 349.

### 38. Property, plant and equipment and right-of-use assets

**ACCOUNTING POLICY**

The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on "Property, plant and equipment" in accounting for its owned assets which are held for and used in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

#### Basis of recognition

Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

#### Basis of measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained below. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of Computer Equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

- Cost model
  The Group applies the Cost Model to all property, plant and equipment except freehold land and freehold and leasehold buildings. These are recorded at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

- Revaluation model

  The Group applies the revaluation model for the entire class of freehold land, freehold and leasehold buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land, freehold and leasehold buildings of the Group are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date.

  On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income only to the extent of the amounts written down previously. Any decrease in the carrying amount is recognised as an expense in the income statement or charged to Revaluation Reserve in Equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. 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.

  The Group revalued its freehold land, freehold and leasehold buildings as at December 31, 2020. Methods and significant assumptions including unobservable market inputs employed in estimating the fair value are given in Note 38.5 (b) and Note 38.5 (c).

  The Bank carried out a revaluation of its freehold land, freehold and leasehold buildings as at December 31, 2020 as required by Section 7.1 (b) of the Direction No. 01 of 2014 on "Valuation of Immovable Property of Licensed Commercial Banks" issued by the CBSL and recognised the revaluation gains/(losses) in the Financial Statements.

  The next revaluation exercise on the freehold land, freehold and leasehold buildings will be carried out on or before December 31, 2023.

### Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in "Net other operating income" in profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on "Property, plant and equipment".

### Capital work-in-progress

These are expenses of capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost less any accumulated impairment losses. Capital work-in-progress is transferred to the relevant asset when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management (i.e., available for use).

### Right-of-use assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position.

## 38.1 Group – 2022

| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs.'000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of use assets Rs. '000 | **Total 2022 Rs. '000** | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | | | | | | |
| Balance as at January 01, | | | 9,387,336 | 6,680,805 | 1,179,686 | 7,344,119 | 548,928 | 7,451,982 | 69,719 | 8,416,150 | 41,078,725 | 38,993,957 |
| Additions/transfers during the year | | | – | 16,472 | – | 2,474,259 | 121,315 | 660,727 | 97,566 | 1,378,652 | 4,748,991 | 2,188,054 |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | – |
| Surplus on revaluation of property | | | – | – | – | – | – | – | – | – | – | – |
| Revaluation loss in excess of cumulative reserve | | | – | – | – | – | – | – | – | – | – | – |
| Disposals during the year | | | – | – | – | (174,790) | (71,936) | (34,429) | – | – | (281,155) | (244,889) |
| Exchange rate variance | | | – | – | – | 187,133 | 61,624 | 398,088 | – | 1,010,115 | 1,656,960 | 144,327 |
| Transfers/adjustments | | | – | – | – | (55) | – | (1,391) | – | – | (1,446) | (2,724) |
| **Balance as at December 31,** | | | 9,387,336 | 6,697,277 | 1,179,686 | 9,830,666 | 659,931 | 8,474,977 | 167,285 | 10,804,917 | 47,202,075 | 41,078,725 |

| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs.'000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of use assets Rs. '000 | **Total 2022 Rs. '000** | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment losses** | | | | | | | | | | | | |
| Balance as at January 01, | | | – | 262,670 | 58,836 | 5,857,533 | 430,444 | 6,211,352 | – | 3,513,256 | 16,334,091 | 13,607,327 |
| Charge for the year | 20 | 280 | – | 264,024 | 36,846 | 799,521 | 66,741 | 535,525 | – | 1,428,593 | 3,131,250 | 2,903,408 |
| Impairment loss | | | – | – | – | – | – | – | – | – | – | – |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | – |
| Disposals during the year | | | – | – | – | (174,026) | (45,666) | (33,725) | – | – | (253,417) | (217,004) |
| Exchange rate variance | | | – | – | – | 146,956 | 50,873 | 345,712 | – | – | 543,541 | 40,441 |
| Transfers/adjustments | | | – | – | – | – | – | 3 | – | – | 3 | (81) |
| **Balance as at December 31,** | | | – | 526,694 | 95,682 | 6,629,984 | 502,392 | 7,058,867 | – | 4,941,849 | 19,755,468 | 16,334,091 |
| **Net book value as at December 31, 2022** | | | 9,387,336 | 6,170,583 | 1,084,004 | 3,200,682 | 157,539 | 1,416,110 | 167,285 | 5,863,068 | 27,446,607 | – |
| **Net book value as at December 31, 2021** | | | 9,387,336 | 6,418,135 | 1,120,850 | 1,486,586 | 118,484 | 1,240,630 | 69,719 | 4,902,894 | – | 24,744,634 |

## 38.2 Group – 2021

| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs.'000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of use assets Rs. '000 | **Total 2021 Rs. '000** | Total 2020 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | | | | | | |
| Balance as at January 01, | | | 9,386,434 | 6,032,851 | 1,179,686 | 6,931,788 | 551,288 | 7,167,679 | 575,205 | 7,169,026 | 38,993,957 | 34,132,719 |
| Additions/transfers during the year | | | 902 | 92,282 | – | 463,458 | 41,985 | 385,486 | 50,186 | 1,153,755 | 2,188,054 | 1,948,928 |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | (629,302) |
| Surplus on revaluation of property | | | – | – | – | – | – | – | – | – | – | 3,684,535 |
| Revaluation loss in excess of cumulative reserve | | | – | – | – | – | – | – | – | – | – | (39,872) |
| Disposals during the year | | | – | – | – | (66,450) | (50,882) | (127,557) | – | – | (244,889) | (186,877) |
| Exchange rate variance | | | – | – | – | 14,576 | 6,537 | 29,845 | – | 93,369 | 144,327 | 84,726 |
| Transfers/adjustments | | | – | 555,672 | – | 747 | – | (3,471) | (555,672) | – | (2,724) | (900) |
| **Balance as at December 31,** | | | 9,387,336 | 6,680,805 | 1,179,686 | 7,344,119 | 548,928 | 7,451,982 | 69,719 | 8,416,150 | 41,078,725 | 38,993,957 |

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| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs.'000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of use assets Rs. '000 | **Total 2021 Rs. '000** | Total 2020 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment losses** | | | | | | | | | | | | |
| Balance as at January 01, | | | – | 1,966 | 22,163 | 5,223,064 | 395,048 | 5,693,271 | – | 2,271,815 | 13,607,327 | 11,608,061 |
| Charge for the year | 20 | 280 | – | 260,704 | 36,673 | 686,340 | 63,104 | 615,146 | – | 1,241,441 | 2,903,408 | 2,791,740 |
| Impairment loss | | | – | – | – | – | – | – | – | – | – | – |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | (629,302) |
| Disposals during the year | | | – | – | – | (61,831) | (32,644) | (122,529) | – | – | (217,004) | (183,796) |
| Exchange rate variance | | | – | – | – | 9,818 | 4,936 | 25,687 | – | – | 40,441 | 20,624 |
| Transfers/adjustments | | | – | – | – | 142 | – | (223) | – | – | (81) | – |
| **Balance as at December 31,** | | | – | 262,670 | 58,836 | 5,857,533 | 430,444 | 6,211,352 | – | 3,513,256 | 16,334,091 | 13,607,327 |
| **Net book value as at December 31, 2021** | | | 9,387,336 | 6,418,135 | 1,120,850 | 1,486,586 | 118,484 | 1,240,630 | 69,719 | 4,902,894 | 24,744,634 | – |
| **Net book value as at December 31, 2020** | | | 9,386,434 | 6,030,885 | 1,157,523 | 1,708,724 | 156,240 | 1,474,408 | 575,205 | 4,897,211 | – | 25,386,630 |

The carrying amount of Group's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

| *As at December 31,* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Cost Rs. '000** | **Accumulated Depreciation Rs. '000** | **Net book value Rs. '000** | Cost Rs. '000 | Accumulated Depreciation Rs. '000 | Net book value Rs. '000 |
| **Class of asset** | | | | | | |
| Freehold land | 1,122,440 | – | 1,122,440 | 1,122,440 | – | 1,122,440 |
| Freehold buildings | 2,520,308 | 665,097 | 1,855,211 | 2,503,836 | 602,173 | 1,901,663 |
| Leasehold buildings | 341,196 | 322,051 | 19,145 | 341,196 | 290,875 | 50,321 |
| **Total** | 3,983,944 | 987,148 | 2,996,796 | 3,967,472 | 893,048 | 3,074,424 |

## 38.3 Bank – 2022

| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs. '000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of-use assets Rs. '000 | **Total 2022 Rs. '000** | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | | | | | | |
| Balance as at January 01, | | | 8,774,704 | 6,489,618 | 100,037 | 7,210,989 | 207,085 | 7,211,576 | 43,378 | 9,092,739 | 39,130,126 | 36,510,627 |
| Additions/transfers during the year | | | – | 13,002 | – | 2,440,880 | 605 | 624,176 | 65,929 | 1,421,796 | 4,566,388 | 2,692,999 |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | – |
| Surplus on revaluation of property | | | – | – | – | – | – | – | – | – | – | – |
| Revaluation loss in excess of cumulative reserve | | | – | – | – | – | – | – | – | – | – | – |
| Disposals during the year | | | – | – | – | (173,362) | (17,726) | (20,827) | – | – | (211,915) | (199,990) |
| Exchange rate variance | | | – | – | – | 154,785 | 59,902 | 284,690 | – | 850,919 | 1,350,296 | 129,214 |
| Transfers/adjustments | | | – | – | – | (55) | – | (1,391) | – | – | (1,446) | (2,724) |
| **Balance as at December 31,** | | | 8,774,704 | 6,502,620 | 100,037 | 9,633,237 | 249,866 | 8,098,224 | 109,307 | 11,365,454 | 44,833,449 | 39,130,126 |

| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs. '000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of-use assets Rs. '000 | **Total 2022 Rs. '000** | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment losses** | | | | | | | | | | | | |
| Balance as at January 01, | | | – | 255,340 | 25,097 | 5,777,484 | 178,201 | 6,025,694 | – | 3,792,843 | 16,054,659 | 13,298,233 |
| Charge for the year | 20 | 280 | – | 258,502 | 2,934 | 780,204 | 23,044 | 504,965 | – | 1,573,170 | 3,142,819 | 2,909,666 |
| Impairment loss | | | – | – | – | – | – | – | – | – | – | – |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | – |
| Disposals during the year | | | – | – | – | (172,735) | (17,726) | (20,190) | – | – | (210,651) | (190,819) |
| Exchange rate variance | | | – | – | – | 120,564 | 50,396 | 250,207 | – | – | 421,167 | 37,660 |
| Transfers/adjustments | | | – | – | – | – | – | 3 | – | – | 3 | (81) |
| **Balance as at December 31,** | | | – | 513,842 | 28,031 | 6,505,517 | 233,915 | 6,760,679 | – | 5,366,013 | 19,407,997 | 16,054,659 |
| **Net book value as at December 31, 2022** | | | 8,774,704 | 5,988,778 | 72,006 | 3,127,720 | 15,951 | 1,337,545 | 109,307 | 5,999,441 | 25,425,452 | – |
| Net book value as at December 31, 2021 | | | 8,774,704 | 6,234,278 | 74,940 | 1,433,505 | 28,884 | 1,185,882 | 43,378 | 5,299,896 | – | 23,075,467 |

## 38.4 Bank – 2021

| | Note | Page No. | Freehold land Rs. '000 | Freehold buildings Rs. '000 | Leasehold buildings Rs. '000 | Computer equipment Rs. '000 | Motor vehicles Rs. '000 | Office equipment, furniture and fixtures Rs. '000 | Capital work-in-progress Rs. '000 | Right-of-use assets Rs. '000 | **Total 2021 Rs. '000** | Total 2020 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | | | | | | | |
| Balance as at January 01, | | | 8,774,704 | 5,841,664 | 100,037 | 6,827,393 | 205,169 | 6,948,465 | 570,384 | 7,242,811 | 36,510,627 | 31,714,275 |
| Additions/transfers during the year | | | – | 92,282 | – | 434,054 | 5,054 | 362,567 | 28,666 | 1,770,376 | 2,692,999 | 1,841,478 |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | (494,319) |
| Surplus on revaluation of property | | | – | – | – | – | – | – | – | – | – | 3,585,430 |
| Revaluation loss in excess of cumulative reserve | | | – | – | – | – | – | – | – | – | – | (39,872) |
| Disposals during the year | | | – | – | – | (66,237) | (9,608) | (124,145) | – | – | (199,990) | (164,956) |
| Exchange rate variance | | | – | – | – | 15,032 | 6,470 | 28,160 | – | 79,552 | 129,214 | 69,491 |
| Transfers/adjustments | | | – | 555,672 | – | 747 | – | (3,471) | (555,672) | – | (2,724) | (900) |
| **Balance as at December 31,** | | | 8,774,704 | 6,489,618 | 100,037 | 7,210,989 | 207,085 | 7,211,576 | 43,378 | 9,092,739 | 39,130,126 | 36,510,627 |
| **Accumulated depreciation and impairment losses** | | | | | | | | | | | | |
| Balance as at January 01, | | | – | – | 22,163 | 5,159,339 | 164,881 | 5,540,550 | – | 2,411,300 | 13,298,233 | 11,207,072 |
| Charge for the year | 20 | 280 | – | 255,340 | 2,934 | 669,772 | 17,994 | 582,083 | – | 1,381,543 | 2,909,666 | 2,731,440 |
| Impairment loss | | | – | – | – | – | – | – | – | – | – | – |
| Transfer of accumulated depreciation on assets revalued | | | – | – | – | – | – | – | – | – | – | (494,319) |
| Disposals during the year | | | – | – | – | (61,738) | (9,608) | (119,473) | – | – | (190,819) | (163,053) |
| Exchange rate variance | | | – | – | – | 9,969 | 4,934 | 22,757 | – | – | 37,660 | 17,093 |
| Transfers/adjustments | | | – | – | – | 142 | – | (223) | – | – | (81) | – |
| **Balance as at December 31,** | | | – | 255,340 | 25,097 | 5,777,484 | 178,201 | 6,025,694 | – | 3,792,843 | 16,054,659 | 13,298,233 |
| **Net book value as at December 31, 2021** | | | 8,774,704 | 6,234,278 | 74,940 | 1,433,505 | 28,884 | 1,185,882 | 43,378 | 5,299,896 | 23,075,467 | – |
| Net book value as at December 31, 2020 | | | 8,774,704 | 5,841,664 | 77,874 | 1,668,054 | 40,288 | 1,407,915 | 570,384 | 4,831,511 | – | 23,212,394 |

The carrying amount of Bank's revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation/amortisation is as follows:

| *As at December 31,* | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Cost Rs. '000 | Accumulated depreciation Rs. '000 | Net book value Rs. '000 | Cost Rs. '000 | Accumulated depreciation Rs. '000 | Net book value Rs. '000 |
| **Class of asset** | | | | | | |
| Freehold land | 958,572 | – | 958,572 | 958,572 | – | 958,572 |
| Freehold buildings | 2,461,317 | 649,986 | 1,811,331 | 2,448,315 | 588,536 | 1,859,779 |
| Leasehold buildings | 98,138 | 78,993 | 19,145 | 98,138 | 74,237 | 23,901 |
| **Total** | 3,518,027 | 728,979 | 2,789,048 | 3,505,025 | 662,773 | 2,842,252 |

The maturity analysis of property, plant and equipment is given in Note 60 on pages 348 and 349.

### 38.5 (a) Information on freehold land and buildings of the Bank and the Group – Extents and locations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

| Location | Number of buildings | Extent (perches) | Buildings (square feet) | Revalued amounts land Rs. '000 | Revalued amounts buildings Rs. '000 | Net book value/ revalued amount Rs. '000 | Net book value before revaluation Rs. '000 |
|---|---|---|---|---|---|---|---|
| CEO's Bungalow – No. 27, Queens Road, Colombo 03 | 1 | 64 | 5,616 | 1,150,000 | 50,000 | 1,190,000 | 988,300 |
| Holiday Bungalow – Bandarawela, Ambatenne Estate, Bandarawela | 1 | 423 | 5,649 | 90,800 | 18,600 | 107,783 | 87,060 |
| Holiday Bungalow – Haputale, No. 23, Lilly Avenue, Welimada Road, Haputale | 1 | 258 | 5,662 | 51,400 | 24,400 | 73,360 | 59,305 |
| **Branch Buildings** | | | | | | | |
| Battaramulla – No. 213, Kaduwela Road, Battaramulla | 1 | 14 | 11,216 | 52,500 | 87,375 | 131,138 | 136,650 |
| Battaramulla – No. 213, Kaduwela Road, Battaramulla | – | 13 | Bare Land | 50,000 | – | 50,000 | 50,000 |
| Borella – No. 92, D S Senanayake Mawatha, Borella, Colombo 08 | 1 | 16 | 16,880 | 246,000 | 254,000 | 476,909 | 386,080 |
| Chilaw – No. 44, Colombo Road, Chilaw | 1 | 35 | 9,420 | 114,693 | 37,708 | 150,515 | 130,965 |
| City Office – No. 98, York Street, Colombo 01 | 1 | – | 24,599 | – | 600,000 | 547,826 | 38,687 |
| Duplication Road – Nos. 405, 407, R A De Mel Mawatha, Colombo 03 | 1 | 20 | 4,194 | 370,000 | 30,000 | 392,526 | 227,332 |
| Galewela – No. 49/57, Matale Road, Galewela | 1 | 99 | 5,632 | 39,600 | 16,900 | 55,655 | 46,337 |
| Galle Main Street – No. 130, Main Street, Galle | 1 | 7 | 3,675 | 60,750 | 9,600 | 69,436 | 62,006 |
| Galle Fort – No. 22, Church Street, Fort, Galle | 1 | 100 | 11,625 | 262,015 | 98,185 | 355,291 | 438,477 |
| Gampaha – No. 51, Queen Mary's Road, Gampaha | 1 | 33 | 4,775 | 105,280 | 10,720 | 114,814 | 83,866 |
| Hikkaduwa – No. 217, Galle Road, Hikkaduwa | 1 | 37 | 7,518 | 43,470 | 29,680 | 71,235 | 60,999 |
| Ja-Ela – No. 140, Negombo Road, Ja-Ela | 1 | 13 | 7,468 | 43,000 | 30,000 | 71,125 | 56,771 |
| Jaffna – No. 474, Hospital Road, Jaffna | 1 | 78 | 52,035 | 429,825 | – | 905,881 | 1,000,000 |
| Kandy – No. 120, Kotugodella Veediya, Kandy | 1 | 45 | 44,500 | 521,000 | 272,000 | 773,571 | 625,107 |
| Karapitiya – No. 89, Hirimbura Cross Road, Karapitiya | 1 | 38 | 3,627 | 73,720 | 19,180 | 91,941 | 103,454 |
| Kegalle – No. 186, Main Street, Kegalle | 1 | 85 | 2,650 | 172,500 | 7,200 | 179,124 | 163,036 |
| Keyzer Street – No. 32, Keyzer Street, Colombo 11 | 1 | 7 | 6,100 | 109,000 | 23,000 | 130,606 | 104,054 |
| Kollupitiya – No. 285, Galle Road, Colombo 03 | 1 | 17 | 16,254 | 299,000 | 65,500 | 358,545 | 284,840 |
| Kotahena – No. 198, George R De Silva Mawatha, Kotahena, Colombo 13 | 1 | 28 | 26,722 | 279,000 | 190,000 | 459,500 | 391,250 |
| Kurunegala – No. 4, Suratissa Mawatha, Kurunegala | 1 | 50 | 10,096 | 257,390 | 42,610 | 297,870 | 276,760 |
| Maharagama – No. 154, High Level Road, Maharagama | 1 | 18 | 8,440 | 133,000 | 67,000 | 193,909 | 134,360 |
| Matale – No. 70, King Street, Matale | 1 | 51 | 8,596 | 201,000 | 65,000 | 261,667 | 180,771 |
| Matara – No. 18, Station Road, Matara | 1 | 38 | 8,137 | 69,465 | 30,835 | 98,373 | 86,384 |
| Minuwangoda – No. 9, Siriwardena Mawatha, Minuwangoda | 1 | 25 | 5,550 | 71,250 | 14,985 | 84,986 | 71,984 |
| Narahenpita – No. 201, Kirula Road, Narahenpita, Colombo 05 | 1 | 22 | 11,193 | 263,000 | 137,000 | 387,545 | 268,857 |

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| Location | Number of buildings | Extent (perches) | Buildings (square feet) | Revalued amounts land Rs. '000 | Revalued amounts buildings Rs. '000 | Net book value/ revalued amount Rs. '000 | Net book value before revaluation Rs. '000 |
|---|---|---|---|---|---|---|---|
| Narammala – No. 55, Negombo Road, Narammala | 1 | 41 | 5,353 | 71,871 | 20,624 | 91,469 | 80,021 |
| Negombo – Nos. 24, 26, Fernando Avenue, Negombo | 1 | 37 | 11,360 | 167,000 | 39,000 | 202,455 | 167,680 |
| Nugegoda – No. 100, Stanley Thilakaratne Mawatha, Nugegoda | 1 | 39 | 11,150 | 485,000 | 115,000 | 589,545 | 202,800 |
| Nuwara Eliya – No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya | 1 | 42 | 10,184 | 187,000 | 76,800 | 258,680 | 192,823 |
| Panadura – No. 375, Galle Road, Panadura | 1 | 12 | 6,168 | 30,750 | 40,092 | 66,833 | 72,940 |
| Peliyagoda Stores – No. 37, New Nuge Road, Peliyagoda | 1 | – | 14,676 | – | 116,000 | 104,400 | 7,737 |
| Pettah – People's Park Shopping Complex, Colombo 11 | 1 | – | 3,147 | – | 80,000 | 72,727 | 58,960 |
| Pettah-Stores – People's Park Shopping Complex, Colombo 11 | 1 | – | 225 | – | 6,670 | 5,968 | 4,750 |
| Pettah – Main Street – No. 280, Main Street, Pettah, Colombo 11 | 1 | 20 | 22,760 | 530,000 | 320,000 | 820,943 | 531,132 |
| Trincomalee – No. 420, Courts Road, Trincomalee | 1 | 100 | 11,031 | 125,425 | – | 280,330 | 100,000 |
| Union Place – No. 1, Union Place, Colombo 02 | 1 | 30 | 63,385 | 720,000 | 1,480,000 | 2,071,304 | 1,383,072 |
| Wellawatte – No. 343, Galle Road, Colombo 06 | 1 | 45 | 51,225 | 818,000 | 1,282,000 | 2,005,216 | 1,643,410 |
| Wennappuwa – Nos. 262, 264, Colombo Road, Wennappuwa | 1 | 36 | 9,226 | 81,000 | 34,000 | 112,481 | 81,793 |
| **Total – Bank** | 40 | | | 8,774,704 | 5,841,664 | 14,763,482 | 11,070,810 |
| **Subsidiaries** | | | | | | | |
| **Commercial Development Company PLC** | | | | | | | |
| Tangalle – No. 148, Matara Road, Tangalle | 1 | 49 | 4,257 | 80,000 | 27,000 | 106,335 | 85,283 |
| Negombo – No. 18, Fernando Avenue, Negombo | 1 | 19 | 9,226 | 93,000 | – | 93,000 | 79,386 |
| **Commercial Insurance Brokers (Private) Limited.** | | | | | | | |
| Colombo – No. 347, Dr. Colvin R De Silva Mawatha, Colombo 02 | 1 | 19 | 9,532 | 355,000 | 51,967 | 402,943 | 392,251 |
| **CBC Finance Limited.** | | | | | | | |
| Kandy – No. 182, Katugastota Road, Kandy | 1 | 3 | 3,714 | 18,100 | 26,900 | 42,757 | 39,768 |
| Kandy – No. 187, Katugastota Road, Kandy | 1 | 12 | 9,480 | 65,630 | 85,320 | 149,402 | 133,317 |
| **Total – Group** | 45 | | | 9,386,434 | 6,032,851 | 15,557,919 | 11,800,815 |

### 38.5 (b) Information on freehold land and buildings of the Bank and Group – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: December 31, 2020

| Name of professional valuer/location and address | Method of valuation and significant unobservable inputs | Range of estimates for unobservable inputs | Net book value before revaluation of | | Revalued amount of | | Revaluation gain/(loss) recognised on | |
|---|---|---|---|---|---|---|---|---|
| | | | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 |
| **H M N Herath** | | | | | | | | |
| **Chilaw** No. 44, Colombo Road, Chilaw | Market comparable method | | 91,754 | 39,211 | 114,693 | 37,708 | 22,939 | 18,224 |
| | • Price per perch for land | Rs. 3,250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,000 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% | | | | | | |
| **Gampaha** No. 51, Queen Mary's Road, Gampaha | Market comparable method | | 74,025 | 9,841 | 105,280 | 10,720 | 31,255 | 879 |
| | • Price per perch for land | Rs. 3,200,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 50% | | | | | | |
| **Minuwangoda** No. 9, Siriwardena Mawatha, Minuwangoda | Market comparable method | | 56,250 | 15,734 | 71,250 | 14,985 | 15,000 | (749) |
| | • Price per perch for land | Rs. 2,850,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 40% | | | | | | |

| Name of professional valuer/location and address | Method of valuation and significant unobservable inputs | Range of estimates for unobservable inputs | Net book value before revaluation of Land Rs. '000 | Net book value before revaluation of Buildings Rs. '000 | Revalued amount of Land Rs. '000 | Revalued amount of Buildings Rs. '000 | Revaluation gain/(loss) recognised on Land Rs. '000 | Revaluation gain/(loss) recognised on Buildings Rs. '000 |
|---|---|---|---|---|---|---|---|---|
| **P B Kalugalagedara** | | | | | | | | |
| **Keyzer Street** No. 32, Keyzer Street, Colombo 11 | Market comparable method | | 82,000 | 22,054 | 109,000 | 23,000 | 27,000 | 946 |
| | • Price per perch for land | Rs. 14,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 500 to Rs. 5,225 p.sq.ft. | | | | | | |
| **Kollupitiya** No. 285, Galle Road, Colombo 03 | Market comparable method | | 225,000 | 59,840 | 299,000 | 65,500 | 74,000 | 5,660 |
| | • Price per perch for land | Rs. 19,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 1,185 to Rs. 5,225 p.sq.ft. | | | | | | |
| **Kotahena** No. 198, George R De Silva Mawatha, Kotahena, Colombo 13 | Investment method | | 197,000 | 194,250 | 279,000 | 190,000 | 82,000 | (4,250) |
| | • Gross monthly rental | Rs. 3,306,000 p.m. | | | | | | |
| | • Years purchase (present value of one unit per period) | 18.18 | | | | | | |
| **R S Wijesuriya** | | | | | | | | |
| **Battaramulla** No. 213, Kaduwela Road, Battaramulla | Market comparable method | | 52,500 | 84,150 | 52,500 | 87,375 | – | 3,225 |
| | • Price per perch for land | Rs. 3,750,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 7,500 p.sq.ft. | | | | | | |
| **Battaramulla** No. 213, Kaduwela Road, Battaramulla | Market comparable method | | 50,000 | – | 50,000 | – | 2,399 | – |
| | • Price per perch for land | Rs. 3,750,000 p.p. | | | | | | |
| **Panadura** No. 375, Galle Road, Panadura | Market comparable method | | 36,900 | 36,040 | 30,750 | 40,092 | (6,150) | 4,052 |
| | • Price per perch for land | Rs. 2,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 6,500 p.sq.ft. | | | | | | |
| **Sarath G Fernando** | | | | | | | | |
| **Holiday Bungalow – Bandarawela** Ambatenne Estate, Bandarawela | Market comparable method | | 72,100 | 14,960 | 90,800 | 18,600 | 18,700 | 3,640 |
| | • Price per perch for land | Rs. 100,000 to Rs. 250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,250 to Rs. 5,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 40% | | | | | | |
| **Holiday Bungalow – Haputale** No. 23, Lilly Avenue, Welimada Road, Haputale | Market comparable method | | 41,200 | 18,105 | 51,400 | 24,400 | 10,200 | 6,295 |
| | • Price per perch for land | Rs. 250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,750 to Rs. 7,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 55% | | | | | | |
| **Kandy** No. 120, Kotugodella Veediya, Kandy | Market comparable method | | 396,000 | 229,107 | 521,000 | 272,000 | 125,000 | 42,893 |
| | • Price per perch for land | Rs. 12,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 7,000 to Rs. 10,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 65% and 70% | | | | | | |
| **Kegalle** No. 186, Main Street, Kegalle | Market comparable method | | 156,700 | 6,336 | 172,500 | 7,200 | 15,800 | 864 |
| | • Price per perch for land | Rs. 1,250,000 to Rs. 3,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 6,000 p.sq.ft. | | | | | | |
| | • Depreciation rate | 55% | | | | | | |
| **Matale** No. 70, Kings Street, Matale | Market comparable method | | 125,000 | 55,771 | 201,000 | 65,000 | 76,000 | 9,229 |
| | • Price per perch for land | Rs. 1,750,000 to Rs. 4,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 10,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 20% and 40% | | | | | | |

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| Name of professional valuer/location and address | Method of valuation and significant unobservable inputs | Range of estimates for unobservable inputs | Net book value before revaluation of | | Revalued amount of | | Revaluation gain/(loss) recognised on | |
|---|---|---|---|---|---|---|---|---|
| | | | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 |
| **Nuwara Eliya** No. 36/3, Buddha Jayanthi Mawatha, Nuwara Eliya | Market comparable method | | 124,800 | 68,023 | 187,000 | 76,800 | 62,200 | 8,777 |
| | • Price per perch for land | Rs. 3,000,000 to Rs. 4,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 10,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 30% | | | | | | |
| **Sunil Fernando Associates Pvt Ltd.** | | | | | | | | |
| **Galle Main Street** No.130, Main Street, Galle | Market comparable method | | 54,000 | 8,006 | 60,750 | 9,600 | 6,750 | 1,594 |
| | • Price per perch for land | Rs. 9,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 2,000 to Rs. 3,250 p.sq.ft. | | | | | | |
| **Galle Fort** No. 22, Church Street, Fort, Galle | Market comparable method | | 255,650 | 182,827 | 262,015 | 98,185 | 6,365 | (82,005) |
| | • Price per perch for land | Rs. 6,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 6,500 p.sq.ft. | | | | | | |
| **Hikkaduwa** No. 217, Galle Road, Hikkaduwa | Market comparable method | | 35,670 | 25,329 | 43,470 | 29,680 | 7,800 | 4,351 |
| | • Price per perch for land | Rs. 900,000 to Rs. 1,350,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,250 to Rs. 4,250 p.sq.ft. | | | | | | |
| **Karapitiya** No. 89, Hirimbura Cross Road , Karapitiya | Market comparable method | | 88,829 | 14,625 | 73,720 | 19,180 | – | 4,555 |
| | • Price per perch for land | Rs. 2,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,500 p.sq.ft. | | | | | | |
| **Matara** No. 18, Station Road, Matara | Market comparable method | | 60,080 | 26,304 | 69,465 | 30,835 | 9,385 | 4,531 |
| | • Price per perch for land | Rs. 1,250,000 to Rs. 2,250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,250 to Rs. 4,000 p.sq.ft. | | | | | | |
| **Trincomalee** No. 420, Courts Road, Trincomalee | Market comparable method | | 100,000 | – | 125,425 | – | 25,425 | – |
| | • Price per perch for land | Rs. 1,250,000 p.p. | | | | | | |
| **S Suresh** | | | | | | | | |
| **Jaffna** No. 474, Hospital Road, Jaffna | Market comparable method | | 1,000,000 | – | 429,825 | – | (570,175) | – |
| | • Price per perch for land | Rs. 5,500,000 to Rs.7,000,000 p.p. | | | | | | |
| **Siri Nissanka** | | | | | | | | |
| **Borella** No. 92, D S Senanayake Mawatha, Colombo 08 | Market comparable method | | 196,000 | 190,080 | 246,000 | 254,000 | 50,000 | 63,920 |
| | • Price per perch for land | Rs. 15,750,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 15,000 p.sq.ft. | | | | | | |
| **City Office** No. 98, York Street, Colombo 01 | Market comparable method | | – | 38,687 | – | 600,000 | – | 561,313 |
| | • Price per perch for land | Rs. 24,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 20,000 p.sq.ft. | | | | | | |
| **CEO's Bungalow** No. 27, Queens Road, Colombo 03 | Market comparable method | | 961,000 | 27,300 | 1,150,000 | 50,000 | 189,000 | 22,700 |
| | • Price per perch for land | Rs. 18,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 10,000 p.sq.ft. | | | | | | |
| **Narahenpita** No. 201, Kirula Road, Narahenpita, Colombo 05 | Market comparable method | | 176,000 | 92,857 | 263,000 | 137,000 | 87,000 | 44,143 |
| | • Price per perch for land | Rs.12,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs.12,500 p.sq.ft. | | | | | | |
| **Peliyagoda Warehouse** No. 37, New Nuge Road, Peliyagoda | Market comparable method | | – | 7,737 | – | 116,000 | – | 108,263 |
| | • Price per perch for land | Rs. 5,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 2,500 p.sq.ft to Rs. 8,500 p.sq.ft. | | | | | | |

| Name of professional valuer/location and address | Method of valuation and significant unobservable inputs | Range of estimates for unobservable inputs | Net book value before revaluation of | | Revalued amount of | | Revaluation gain/(loss) recognised on | |
|---|---|---|---|---|---|---|---|---|
| | | | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 |
| **Pettah – Main Street** No. 280, Main Street, Pettah, Colombo 11 | Market comparable method | | 360,000 | 171,132 | 530,000 | 320,000 | 170,000 | 148,868 |
| | • Price per perch for land | Rs. 26,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 16,250 p.sq.ft. | | | | | | |
| **Union Place** No. 1, Union Place, Colombo 02 | Market comparable method | | 500,000 | 883,072 | 720,000 | 1,480,000 | 220,000 | 596,928 |
| | • Price per perch for land | Rs. 24,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 23,000 p.sq.ft. | | | | | | |
| **Duplication Road** Nos. 405, 407, R A De Mel Mawatha, Colombo 03 | Market comparable method | | 220,400 | 6,932 | 370,000 | 30,000 | 149,600 | 23,068 |
| | • Price per perch for land | Rs. 18,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,500 p.sq.ft. | | | | | | |
| **Maharagama** No. 154, Highlevel Road, Maharagama | Market comparable method | | 93,000 | 41,360 | 133,000 | 67,000 | 40,000 | 25,640 |
| | • Price per perch for land | Rs. 7,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 8,000 p.sq.ft. | | | | | | |
| **Nugegoda** No. 100, Stanley Thilakaratne Mawatha, Nugegoda | Market comparable method | | 150,000 | 52,800 | 485,000 | 115,000 | 335,000 | 62,200 |
| | • Price per perch for land | Rs. 12,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 10,650 p.sq.ft. | | | | | | |
| **Wellawatte** No. 343, Galle Road, Colombo 06 | Market comparable method | | 650,000 | 993,410 | 818,000 | 1,282,000 | 168,000 | 288,590 |
| | • Price per perch for land | Rs. 18,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 25,000 p.sq.ft. | | | | | | |
| **W D P Rupananda** | | | | | | | | |
| **Ja-Ela** No. 140, Negombo Road, Ja-Ela | Market comparable method | | 33,000 | 23,771 | 43,000 | 30,000 | 10,000 | 6,229 |
| | • Price per perch for land | Rs. 3,250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 6,000 p.sq.ft. | | | | | | |
| | • Depreciation rate | 30% | | | | | | |
| **Negombo** Nos. 24, 26, Fernando Avenue, Negombo | Market comparable method | | 136,000 | 31,680 | 167,000 | 39,000 | 31,000 | 7,320 |
| | • Price per perch for land | Rs. 3,500,000 to Rs. 5,000,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 5,000 to Rs. 6,250 p.sq.ft. | | | | | | |
| | • Depreciation rate | 48% and 35% | | | | | | |
| **Pettah** People's Park Shopping Complex, Colombo 11 | Investment method | | – | 58,960 | – | 80,000 | – | 21,040 |
| | • Gross monthly rental | Rs. 550,000 p.m. | | | | | | |
| | • Years purchase (Present value of 1 unit per period) | 18.18 | | | | | | |
| | • Void period | 4 months p.a. | | | | | | |
| **Pettah – stores** People's Park Shopping Complex, Colombo 11 | Investment method | | – | 4,750 | – | 6,670 | – | 1,920 |
| | • Gross monthly rental | Rs. 50,000 p.m. | | | | | | |
| | • Years purchase (Present value of 1 unit per period) | 16.67 | | | | | | |
| | • Void period | 4 months p.a. | | | | | | |
| **Wennappuwa** Nos. 262, 264, Colombo Road, Wennappuwa | Market comparable method | | 54,000 | 27,793 | 81,000 | 34,000 | 27,000 | 6,207 |
| | • Price per perch for land | Rs. 2,250,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,600 to Rs. 6,200 p.sq.ft. | | | | | | |
| | • Depreciation rate | 35% | | | | | | |

| Name of professional valuer/location and address | Method of valuation and significant unobservable inputs | Range of estimates for unobservable inputs | Net book value before revaluation of | | Revalued amount of | | Revaluation gain/(loss) recognised on | |
|---|---|---|---|---|---|---|---|---|
| | | | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 | Land Rs. '000 | Buildings Rs. '000 |
| **W S Pemaratne** | | | | | | | | |
| **Galewela** No. 49/57, Matale Road, Galewela | Market comparable method | | 29,700 | 16,637 | 39,600 | 16,900 | 9,900 | 263 |
| | • Price per perch for land | Rs. 400,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 2,000 to Rs. 4,000 p.sq.ft. | | | | | | |
| | • Depreciation rate | 19% and 27% | | | | | | |
| **Kurunegala** No. 4, Suratissa Mawatha, Kurunegala | Market comparable method | | 236,800 | 39,960 | 257,390 | 42,610 | 20,590 | 2,650 |
| | • Price per perch for land | Rs. 4,200,000 p.p to Rs. 5,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 3,500 to Rs. 4,750 p.sq.ft. | | | | | | |
| | • Depreciation rate | 15% | | | | | | |
| **Narammala** No. 55, Negombo Road, Narammala | Market comparable method | | 61,604 | 18,417 | 71,871 | 20,624 | 10,267 | 2,207 |
| | • Price per perch for land | Rs. 1,750,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 4,000 p.sq.ft. | | | | | | |
| | • Depreciation rate | 8% | | | | | | |
| **Total – Bank** | | | 7,232,962 | 3,837,848 | 8,774,704 | 5,841,664 | 1,559,250 | 2,026,180 |
| **Subsidiaries** | | | | | | | | |
| **Commercial Development Company PLC** | | | | | | | | |
| **G M Gamage** **Tangalle** No. 48, Matara Road, Tangalle | Investment method | | 66,787 | 18,496 | 80,000 | 27,000 | 13,213 | 8,504 |
| | • Gross monthly rental | Rs. 320,000 p.m. | | | | | | |
| | • Years purchase (Present value of 1 unit per period) | 18.18 | | | | | | |
| | • Void period | N/A | | | | | | |
| **G H A P K Fernando** **Negombo** No. 18, Fernando Avenue, Negombo | Market comparable method | | 79,386 | – | 93,000 | – | 13,614 | – |
| | • Price per perch for land | Rs. 5,000,000 p.p. | | | | | | |
| **Commercial Insurance Brokers (Private) Limited** | | | | | | | | |
| **G J Sumanasena** **Colombo** No. 347, Dr. Colvin R De Silva Mawatha, Colombo 02 | Market comparable method | | 337,000 | 55,251 | 355,000 | 51,967 | 18,000 | (3,284) |
| | • Price per perch for land | Rs. 18,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 7,500 p.sq.ft. | | | | | | |
| | • Depreciation rate | 30% | | | | | | |
| **CBC Finance Limited. (*)** | | | | | | | | |
| **Kandy** No. 182, Katugastota Road, Kandy | Market comparable method | | 16,400 | 23,368 | 18,100 | 26,900 | 1,700 | 3,532 |
| | • Price per perch for land | Rs. 5,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 7,250 p.sq.ft. | | | | | | |
| **Kandy** No. 187, Katugastota Road, Kandy | Market comparable method | | 59,662 | 73,655 | 65,630 | 85,320 | 5,968 | 11,665 |
| | • Price per perch for land | Rs. 5,500,000 p.p. | | | | | | |
| | • Price per square foot for building | Rs. 9,000 p.sq.ft. | | | | | | |
| **Total – Group** | | | 7,792,197 | 4,008,618 | 9,386,434 | 6,032,851 | 1,611,745 | 2,046,597 |

*p.p. – per perch   p.sq.ft. – per square foot   p.m. – per month   p.a. – per annum*

*(*) The valuation was carried out as at the financial year ended March 31, 2020.*

### 38.5 (c) Valuation techniques and sensitivity of the fair value measurement of the freehold land and buildings of the Bank and Group

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

| Valuation technique | Significant unobservable valuation inputs (ranges of each property are given in the table above) | Sensitivity of the fair value measurement to inputs |
|---|---|---|
| **Market comparable method**<br>This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value. | Price per perch for land<br>Price per square foot for building<br>Depreciation rate for building | Estimated fair value would increase/(decrease) if;<br>Price per perch for land would increase/(decrease)<br>Price per square foot for building would increase/(decrease)<br>Depreciation rate for building would (decrease)/increase |
| **Investment method**<br>This method involves the capitalisation of the expected rental income at an appropriate rate of years purchased currently characterised by the real estate market. | Gross Annual Rentals<br>Years purchase (Present value of 1 unit per period)<br>Void period | Estimated fair value would increase/(decrease) if;<br>Gross Annual Rentals would increase/(decrease)<br>Years purchase would increase/(decrease)<br>Void period would decrease/(increase) |

### 38.6 Title restriction on property, plant and equipment

There were no restrictions existed on the title of the property, plant and equipment of the Group/Bank as at the reporting date.

### 38.7 Property, plant and equipment pledged as security for liabilities – Bank

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date.

### 38.8 Compensation from third parties for items of property, plant and equipment – Bank

The compensation received/receivable from third parties for items of property, plant and equipment that were impaired, lost or given up at the reporting date of the Bank is as follows:

| *As at December 31,* | **2022 Rs. '000** | 2021 Rs. '000 |
|---|---:|---:|
| Total claims lodged | 18,457 | 9,157 |
| Total claims received | (10,916) | (7,364) |
| Total claims rejected | (2,672) | (45) |
| **Total claims receivable** | 4,869 | 1,748 |

### 38.9 Fully-depreciated property, plant and equipment – Bank

The cost of fully-depreciated property, plant and equipment of the Bank which are still in use is as follows:

| *As at December 31,* | **2022 Rs. '000** | 2021 Rs. '000 |
|---|---:|---:|
| Computer equipment | 3,238,596 | 2,693,950 |
| Office equipment, furniture and fixtures | 4,220,455 | 3,640,247 |
| Motor vehicles | 68,414 | 65,005 |

### 38.10 Temporarily idle property, plant and equipment – Bank

Following property, plant and equipment of the Bank were temporarily idle (until the assets are issued to the business units):

| *As at December 31,* | **2022 Rs. '000** | 2021 Rs. '000 |
|---|---|---|
| Computer equipment | 190,926 | 86,011 |
| Office equipment, furniture and fixtures | 224,499 | 88,034 |

### 38.11 Property, plant and equipment retired from active use – Bank

Following property, plant and equipment of the Bank were retired from active use:

| *As at December 31,* | | **2022 Rs. '000** | 2021 Rs. '000 |
|---|---|---|---|
| Computer equipment | Cost | 530,971 | 477,722 |
| | Depreciation | 521,973 | 469,614 |
| | NBV | 8,998 | 8,108 |
| Office equipment, furniture and fixtures | Cost | 214,539 | 178,389 |
| | Depreciation | 212,184 | 173,429 |
| | NBV | 2,355 | 4,960 |

### 38.12 Borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 2022 (2021 – Nil).

## 39. Investment properties

ACCOUNTING POLICY

Investment Properties are those which are held either to earn rental income or for capital appreciation or for both.

An investment property is recognised, if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be reliably measured.

The Group recognises the investment properties at its fair value.

When a portion of the property is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purposes, the Group accounts for the portions separately if these portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the entire property is treated as investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the net other operating income.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Cost/valuation** | | | | | | |
| Balance as at January 01, | | | 72,400 | 67,116 | – | – |
| Additions resulting from acquisitions | | | – | – | – | – |
| Subsequent additions during the year | | | – | – | – | – |
| Fair value gains | 17 | 276 | 7,950 | 5,284 | – | – |
| **Balance as at December 31,** | | | 80,350 | 72,400 | – | – |

The maturity analysis of investment properties is given in Note 60 on pages 348 and 349.

There were no capitalised borrowing cost related to the acquisition of Investment properties during the year 2022 (2021 – Nil).

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### 39.1 (a) Information on investment properties of the Group – Extents and Locations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

| Location | Number of buildings | Extent (Perches) | Buildings (Square feet) | Fair value of the investment property – Land Rs. '000 | Fair value of the investment property – Building Rs. '000 | Carrying value of the investment property before fair valuation – Land Rs. '000 | Carrying value of the investment property before fair valuation - Building Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Commercial Insurance Brokers Private Ltd.** | | | | | | | |
| No. 347, Dr Colvin R De Silva Mawatha, Colombo 2, Sri Lanka | 1 | – | 8,616 | – | 54,000 | – | 47,250 |
| **C B C Finance Ltd** | | | | | | | |
| Lot – 04, Plan No. 1652, Bulumulla, Kiribathkumbura | – | 19 | Bare Land | 6,075 | – | 5,800 | – |
| Lot – 01, Plan No. 1366, Boyagama, Pilimathalawa | – | 312 | Bare Land | 20,275 | – | 19,350 | – |
| **Total** | 1 | | | 26,350 | 54,000 | 25,150 | 47,250 |

### 39.1 (b) Information on investment properties of the Group – Valuations

[As required by the Rule No. 7.6 (viii) of the "Continuing Listing Requirements" of the Colombo Stock Exchange]

Date of valuation: December 31, 2022

| Name of professional valuer/ location and address | Method of valuation and significant unobservable inputs | Range of estimates for unobservable inputs | Carrying value of the investment property before fair valuation | | Fair value of the investment property | | Fair value gains/(losses) recognised in Income Statement | |
|---|---|---|---|---|---|---|---|---|
| | | | Land Rs. '000 | Building Rs. '000 | Land Rs. '000 | Building Rs. '000 | Land Rs. '000 | Building Rs. '000 |
| **Commercial Insurance Brokers Private Ltd.** | | | | | | | | |
| **G J Sumanasena**<br>No. 347, Dr Colvin R De Silva Mawatha, Colombo 02, Sri Lanka | Market comparable method<br>• Price per square foot<br>• Depreciation rate | Rs. 7,500 p.sq.ft.<br>30% | – | 47,250 | – | 54,000 | – | 6,750 |
| **C B C Finance Ltd** | | | | | | | | |
| **K M U Dissanayake**<br>Lot – 04, Plan No. 1652, Bulumulla, Kiribathkumbura | Market comparable method<br>• Price per perch | Rs. 310,000 p.p | 5,800 | – | 6,075 | – | 275 | – |
| Lot – 01, Plan No. 1366, Boyagama, Pilimathalawa | Market comparable method<br>• Price per perch | Rs. 62,000 p.p. | 19,350 | – | 20,275 | – | 925 | – |
| **Total** | | | 25,150 | 47,250 | 26,350 | 54,000 | 1,200 | 6,750 |

### 39.1 (c) Valuation techniques and sensitivity of the fair value measurement of the investment properties of the Group

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

| Valuation technique | Significant unobservable valuation inputs (ranges of each property are given in the table above) | Sensitivity of the fair value measurement to inputs |
|---|---|---|
| **Market comparable method**<br>This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value. | Price per perch for land<br>Price per square foot for building<br>Depreciation rate for building | Estimated fair value would increase/(decrease) if;<br>Price per perch of land would increase/(decrease)<br>Price per square foot for building would increase/(decrease)<br>Depreciation rate for building would (decrease)/increase |

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## 40. Intangible assets

ACCOUNTING POLICY

The Group's intangible assets include the value of acquired goodwill, trademarks and computer software.

### Basis of recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

### Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### Useful economic lives, amortisation and impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

- **Intangible assets with finite lives and amortisation**

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. 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 are treated as changes in accounting estimates, which require prospective application. The amortisation expense on intangible assets with finite lives is expensed as incurred.

- **Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

- **Computer software**

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally-developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally-developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

- **Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- The asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

As at the reporting date, the Group does not have development costs capitalised as an internally-generated intangible asset.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | 2022<br>Rs. '000 | 2021<br>Rs. '000 | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
| Computer software | 40.1 | 322 | 1,984,245 | 913,139 | 1,887,640 | 818,839 |
| Software under development | 40.2 | 322 | 1,683,808 | 914,353 | 1,675,480 | 906,025 |
| Goodwill arising on business combination | | | 445,147 | 445,147 | – | – |
| **Total** | | | 4,113,200 | 2,272,639 | 3,563,120 | 1,724,864 |

### 40.1 Computer software

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Cost/valuation** | | | | | | |
| Balance as at January 01, | | | 3,224,572 | 2,789,928 | 2,926,569 | 2,500,261 |
| Additions during the year | | | 1,255,591 | 361,616 | 1,248,700 | 319,209 |
| Disposals/write-off during the year | | | (28,185) | (41,845) | (28,185) | (758) |
| Exchange rate variance | | | 260,972 | 16,162 | 97,770 | 9,146 |
| Transfers/adjustments | | | 199,869 | 98,711 | 199,869 | 98,711 |
| **Balance as at December 31,** | | | 4,912,819 | 3,224,572 | 4,444,723 | 2,926,569 |
| **Accumulated amortisation and impairment losses** | | | | | | |
| Balance as at January 01, | | | 2,311,433 | 2,016,160 | 2,107,730 | 1,840,671 |
| Amortisation for the year | 20 | 280 | 467,121 | 316,658 | 420,657 | 268,962 |
| Impairment loss | | | – | – | – | – |
| Disposals/write-off during the year | | | (28,185) | (24,321) | (28,185) | (758) |
| Exchange rate variance | | | 178,205 | 8,486 | 56,881 | 4,405 |
| Transfers/adjustments | | | – | (5,550) | – | (5,550) |
| **Balance as at December 31,** | | | 2,928,574 | 2,311,433 | 2,557,083 | 2,107,730 |
| **Net book value as at December 31,** | | | 1,984,245 | 913,139 | 1,887,640 | 818,839 |

### 40.2 Software under development

| | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| **Cost/valuation** | | | | |
| Balance as at January 01, | 914,353 | 581,601 | 906,025 | 573,273 |
| Additions during the year | 969,324 | 448,838 | 969,324 | 448,838 |
| Transfers/adjustments | (199,869) | (116,086) | (199,869) | (116,086) |
| **Balance as at December 31,** | 1,683,808 | 914,353 | 1,675,480 | 906,025 |

There were no restrictions on the title of the intangible assets of the Group as at the reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2022 (2021 – Nil).

The maturity analysis of intangible assets is given in Note 60 on pages 348 and 349.

## 41. Deferred tax assets and liabilities

ACCOUNTING POLICY

There is no legally enforceable right to set off deferred tax assets against the deferred tax liabilities if it does not relates to the same taxable entity or the same taxation authority.

| *As at December 31,* | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Recognised under deferred tax assets | 30,727,213 | 10,036,105 | 30,301,203 | 9,793,129 |
| Recognised under deferred tax liabilities | 437,123 | 349,106 | – | – |
| **Net deferred tax assets** | 30,290,090 | 9,686,999 | 30,301,203 | 9,793,129 |

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### 41.1 Summary of net deferred tax assets

| | | | GROUP | | | | BANK | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2022 | | 2021 | | 2022 | | 2021 | |
| | Note | Page No. | Temporary difference Rs. '000 | Tax effect Rs. '000 | Temporary difference Rs. '000 | Tax effect Rs. '000 | Temporary difference Rs. '000 | Tax effect Rs. '000 | Temporary difference Rs. '000 | Tax effect Rs. '000 |
| Balance as at January 01, | | | 40,028,584 | 9,686,999 | 7,948,348 | 2,331,720 | 40,478,929 | 9,793,129 | 8,538,501 | 2,499,860 |
| Impact on origination and reversal of temporary differences to Income Statements | 23 | 282 | 76,797,217 | 25,194,892 | 17,836,261 | 2,853,644 | 76,289,763 | 25,060,854 | 17,703,307 | 2,846,274 |
| Impact on origination and reversal of temporary differences to Statement of Profit or Loss and Other Comprehensive Income | | | (16,237,801) | (4,747,075) | 14,565,275 | 4,555,403 | (16,246,876) | (4,663,462) | 14,558,421 | 4,501,101 |
| Impact on origination and reversal of temporary differences to Retained Earnings on expired ESOP | | | – | – | (321,300) | (77,112) | – | – | (321,300) | (77,112) |
| Exchange rate variance | | | – | 155,274 | – | 23,344 | – | 110,682 | – | 23,006 |
| Balance as at December 31, | | | 100,588,000 | 30,290,090 | 40,028,584 | 9,686,999 | 100,521,816 | 30,301,203 | 40,478,929 | 9,793,129 |

### 41.2 Reconciliation of net deferred tax assets – Group

| *For the year ended/as at December 31,* | Statement of financial position 2022 Rs. '000 | Statement of financial position 2021 Rs. '000 | Profit or loss 2022 Rs. '000 | Profit or loss 2021 Rs. '000 | Other comprehensive income 2022 Rs. '000 | Other comprehensive income 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Deferred tax assets on:** | | | | | | |
| Post employment benefit obligation | 565,708 | 513,663 | (13,701) | (400,240) | 65,746 | (22,365) |
| Unrealised losses on financial assets measured at fair value through other comprehensive income | (55,294) | 3,839,657 | (419) | (537,472) | (3,894,532) | 4,010,673 |
| Provision for impairment charges | 34,616,935 | 9,432,483 | 25,184,452 | 2,822,326 | – | – |
| Right-of-use assets | 151,805 | 116,586 | 35,219 | 25,851 | – | – |
| Equity-settled share-based payments | 45,159 | 36,127 | 9,032 | (8,142) | – | – |
| Hedging reserve | (15,666) | 17,792 | – | – | (33,458) | (22,073) |
| Brought forward losses | 5,431 | 3,496 | 1,935 | 3,496 | – | – |
| Short-term employee benefit obligation | 18,100 | 8,865 | 9,235 | 332 | – | – |
| | 35,332,178 | 13,968,669 | 25,225,753 | 1,906,151 | (3,862,244) | 3,966,235 |
| **Deferred tax liabilities on:** | | | | | | |
| Accelerated depreciation for tax purposes – Property, plant and equipment | 573,878 | 392,061 | (181,817) | 164,231 | – | – |
| Accelerated depreciation for tax purposes – Leased assets | 401,717 | 589,254 | 187,537 | 789,159 | – | – |
| Revaluation surplus on freehold buildings | 1,687,537 | 1,397,191 | 118,693 | 17,447 | (409,039) | 271,973 |
| Revaluation surplus on freehold land | 2,378,956 | 1,903,164 | – | – | (475,792) | 317,195 |
| Effect of exchange rate variance | – | – | (155,274) | (23,344) | – | – |
| | 5,042,088 | 4,281,670 | (30,861) | 947,493 | (884,831) | 589,168 |
| **Deferred tax effect on profit or loss and other comprehensive income for the year** | | | 25,194,892 | 2,853,644 | (4,747,075) | 4,555,403 |
| **Net deferred tax asset as at December 31,** | 30,290,090 | 9,686,999 | | | | |

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### 41.3 Reconciliation of net deferred tax assets – Bank

| For the year ended/as at December 31, | Statement of financial position 2022 Rs. '000 | 2021 Rs. '000 | Profit or loss 2022 Rs. '000 | 2021 Rs. '000 | Other comprehensive income 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| **Deferred tax assets on:** | | | | | | |
| Post employment benefit obligation | 534,188 | 489,646 | (21,654) | (391,698) | 66,196 | (20,498) |
| Unrealised losses on financial assets measured at fair value through other comprehensive income | (57,890) | 3,839,200 | – | (538,021) | (3,897,090) | 4,010,933 |
| Provision for impairment charges | 34,172,020 | 9,139,841 | 25,032,179 | 2,867,321 | – | – |
| Right-of-use assets | 151,684 | 115,378 | 36,306 | 26,244 | – | – |
| Equity-settled share-based payments | 45,159 | 36,127 | 9,032 | (8,142) | – | – |
| Hedging reserve | (15,666) | 17,792 | – | – | (33,458) | (22,073) |
| | 34,829,495 | 13,637,984 | 25,055,863 | 1,955,704 | (3,864,352) | 3,968,362 |
| **Deferred tax liabilities on:** | | | | | | |
| Accelerated depreciation for tax purposes – Property, plant and equipment | 493,795 | 327,780 | (166,015) | 146,856 | – | – |
| Accelerated depreciation for tax purposes – Leased assets | 393,245 | 555,663 | 162,418 | 749,412 | – | – |
| Revaluation surplus on freehold buildings | 1,290,426 | 1,080,751 | 119,270 | 17,308 | (328,945) | 219,296 |
| Revaluation surplus on freehold land | 2,350,826 | 1,880,661 | – | – | (470,165) | 313,443 |
| Effect of Exchange rate variance | – | – | (110,682) | (23,006) | – | – |
| | 4,528,292 | 3,844,855 | 4,991 | 890,570 | (799,110) | 532,739 |
| **Deferred tax effect on profit or loss and other comprehensive income for the year** | | | 25,060,854 | 2,846,274 | (4,663,462) | 4,501,101 |
| **Net deferred tax asset as at December 31,** | 30,301,203 | 9,793,129 | | | | |

The maturity analysis of deferred tax assets given in Note 60 on pages 348 and 349.

## 42. Other assets

| *As at December 31,* | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Deposits and prepayments | 2,469,198 | 1,444,557 | 2,385,498 | 1,413,803 |
| Reimbursement under special senior citizen deposit scheme | 10,777,882 | 6,913,583 | 10,777,882 | 6,913,583 |
| Reimbursement under special deposit account scheme | 402,622 | 73,114 | 402,622 | 73,114 |
| Reimbursement under additional incentive scheme on inward workers' remittances | 1,271,362 | 1,902,852 | 1,271,362 | 1,902,852 |
| Reimbursement under incentives for general public on foreign currency held in hand | – | 3,145 | – | 3,145 |
| Reimbursement under transaction cost of worker remittance | 841,745 | – | 841,745 | – |
| Clearing account balance | 7,612,330 | 5,789,230 | 7,612,330 | 5,789,230 |
| Unamortised cost on staff loans (Day 1 difference) | 7,802,960 | 5,133,446 | 7,802,960 | 5,133,446 |
| Other accounts | 9,633,112 | 5,823,250 | 9,604,769 | 5,795,302 |
| **Total** | 40,811,211 | 27,083,177 | 40,699,168 | 27,024,475 |

The maturity analysis of other assets is given in Note 60 on pages 348 and 349.

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## 43. Due to banks

ACCOUNTING POLICY

These represent call money borrowings, credit balances in Nostro Accounts and borrowings from banks. Subsequent to initial recognition, these are measured at amortised cost using the EIR method. Interest paid/payable on these borrowings is recognised in profit or loss.

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Borrowings | 64,934,911 | 72,585,648 | 65,093,802 | 72,561,873 |
| Local currency borrowings | 6,149,813 | 193,865 | 6,008,932 | – |
| Foreign currency borrowings | 58,785,098 | 72,391,783 | 59,084,870 | 72,561,873 |
| Securities sold under repurchase (Repo) agreements (*) | 36,259 | 1,215,547 | 36,259 | 1,215,547 |
| **Total** | **64,971,170** | 73,801,195 | **65,130,061** | 73,777,420 |

*(*) Securities sold under repurchase (Repo) agreements are shown on the face of the Statement of Financial Position except for the Repos with banks.*

The maturity analysis of due to banks is given in Note 60 on pages 348 and 349.

## 44. Derivative financial liabilities

ACCOUNTING POLICY

**Derivative financial liabilities – Held for trading**

Derivative financial liabilities are classified as held for trading. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Derivatives embedded in financial liabilities are treated separately and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, a separate instrument with the same terms as embedded derivative would meet the definition of derivative and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss.

Derivatives are recorded at fair value with corresponding gains or losses are recognised in net gains/(losses) on trading in the Income Statement.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | | | **2022** | 2021 | **2022** | 2021 |
| | Note | Page No. | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Derivative financial liabilities – Held for trading** | | | | | | |
| Foreign currency derivatives | | | 2,371,482 | 1,962,883 | 2,371,482 | 1,962,883 |
| Currency swaps | | | 1,996,458 | 1,698,238 | 1,996,458 | 1,698,238 |
| Forward contracts | | | 373,965 | 258,788 | 373,965 | 258,788 |
| Spot contracts | | | 1,059 | 5,473 | 1,059 | 5,473 |
| Currency options | | | – | 384 | – | 384 |
| **Derivative financial liabilities – Cash flow hedges held for risk management** | | | | | | |
| Interest rate swaps – USD | 44.1 | 325 | – | 74,135 | – | 74,135 |
| Interest rate swaps – LKR | | | 509,185 | 55,180 | 509,185 | 55,180 |
| **Total** | | | **2,880,667** | 2,092,198 | **2,880,667** | 2,092,198 |

### 44.1 Derivative financial liabilities – Cash flow hedges held for risk management

The Group uses interest rate swaps to hedge the interest rate risk arising from a floating rate borrowing denominated in foreign currencies. Refer Note 31.1 on page 292.

The maturity analysis of derivative financial liabilities is given in Note 60 on page 348 to 349.

## 45. Financial liabilities at amortised cost – Due to depositors

ACCOUNTING POLICY

These include non-interest-bearing deposits, savings deposits, term deposits, deposits payable at call, and certificates of deposit. Subsequent to initial recognition deposits are measured at amortised cost using the EIR method, except where the Group designates liabilities at fair value through profit or loss. Interest paid/payable on these deposits is recognised in "Interest expense" in the Income Statement.

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| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Local currency deposits** | **1,243,534,769** | 1,063,816,968 | **1,239,920,997** | 1,059,847,557 |
| Current account balances | **86,197,384** | 84,663,624 | **86,197,776** | 84,663,969 |
| Savings deposits | **362,455,763** | 430,411,206 | **362,666,802** | 430,571,124 |
| Time deposits | **794,859,320** | 548,717,236 | **791,034,117** | 544,587,562 |
| Other deposits | **22,302** | 24,902 | **22,302** | 24,902 |
| **Foreign currency deposits** | **734,208,892** | 408,823,488 | **674,438,497** | 383,245,896 |
| Current account balances | **132,032,767** | 66,784,343 | **105,720,231** | 56,116,885 |
| Savings deposits | **191,459,487** | 124,954,064 | **179,730,080** | 118,933,105 |
| Time deposits | **410,716,638** | 217,085,081 | **388,988,186** | 208,195,906 |
| **Total** | **1,977,743,661** | 1,472,640,456 | **1,914,359,494** | 1,443,093,453 |

## 45.1 Analysis of due to customers/deposits from customers

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **(a) By product** | | | | |
| Current account balances | **218,230,151** | 151,447,967 | **191,918,007** | 140,780,854 |
| Savings deposits | **553,915,250** | 555,365,270 | **542,396,882** | 549,504,229 |
| Time deposits | **1,205,575,958** | 765,802,317 | **1,180,022,303** | 752,783,468 |
| Other deposits | **22,302** | 24,902 | **22,302** | 24,902 |
| **Total** | **1,977,743,661** | 1,472,640,456 | **1,914,359,494** | 1,443,093,453 |
| **(b) By currency** | | | | |
| Sri Lanka Rupee | **1,243,427,990** | 1,063,799,085 | **1,239,814,218** | 1,059,829,674 |
| United States Dollar | **473,669,803** | 249,019,760 | **440,132,617** | 234,573,692 |
| Great Britain Pound | **16,735,916** | 10,899,892 | **16,732,861** | 10,896,505 |
| Euro | **14,773,285** | 9,627,165 | **14,699,558** | 9,556,336 |
| Australian Dollar | **9,739,962** | 6,520,439 | **9,739,962** | 6,520,439 |
| Bangladesh Taka | **190,211,877** | 119,743,557 | **190,211,877** | 119,743,557 |
| Maldivian Rufiyaa | **26,095,923** | 11,029,795 | **–** | – |
| Other currencies | **3,088,905** | 2,000,763 | **3,028,401** | 1,973,250 |
| **Total** | **1,977,743,661** | 1,472,640,456 | **1,914,359,494** | 1,443,093,453 |
| **(c) By institution/customers** | | | | |
| Deposits from banks | **8,063,822** | 9,496,875 | **8,862,972** | 9,800,433 |
| Deposits from finance companies | **5,446,405** | 4,503,781 | **5,114,744** | 4,474,719 |
| Deposits from other customers | **1,964,233,434** | 1,458,639,800 | **1,900,381,778** | 1,428,818,301 |
| **Total** | **1,977,743,661** | 1,472,640,456 | **1,914,359,494** | 1,443,093,453 |

The maturity analysis of financial liabilities at amortised cost – due to depositors is given in Note 60 on pages 348 and 349.

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## 46. Financial liabilities at amortised cost – other borrowings

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Refinance borrowings | **12,522,808** | 23,654,334 | **12,522,808** | 23,654,334 |
| Borrowings from International Finance Corporation (IFC) | **3,627,548** | 8,932,717 | **3,627,548** | 8,932,717 |
| **Total** | **16,150,356** | 32,587,051 | **16,150,356** | 32,587,051 |

The maturity analysis of financial liabilities at amortised cost – other borrowings is given in Note 60 on pages 348 and 349.

## 47. Current tax liabilities

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Balance as at January 01, | | | 9,486,772 | 6,991,005 | 9,294,180 | 6,777,992 |
| Provision for the year | | | 25,265,452 | 12,998,493 | 24,648,645 | 12,661,181 |
| Reversal of (over)/under provision | 23 | 282 | 35,006 | (1,477,813) | 40,803 | (1,419,755) |
| Self assessment payments | | | (11,143,271) | (8,963,620) | (10,643,395) | (8,660,823) |
| Transfers in settlement of other taxes | | | 97,854 | – | 97,854 | – |
| Withholding tax/other credits | | | – | (139,143) | – | (139,110) |
| Exchange rate variance | | | 1,174,261 | 77,850 | 1,037,232 | 74,695 |
| **Balance as at December 31,** | | | 24,916,074 | 9,486,772 | 24,475,319 | 9,294,180 |

The maturity analysis of current tax liabilities is given in Note 60 on pages 348 and 349.

## 48. Other liabilities

ACCOUNTING POLICY

Other liabilities include provisions made on fees and expenses, gratuity/pensions, leave encashment, lease liability, and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

| *As at December 31,* | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Accrued expenditure | | | 7,194,022 | 3,626,452 | 7,052,022 | 3,559,798 |
| Cheques sent on clearing | | | 7,612,330 | 5,789,230 | 7,612,330 | 5,789,230 |
| Lease liability | 48.1 | 327 | 6,339,970 | 5,339,877 | 6,490,763 | 5,751,209 |
| Provision for gratuity payable | 48.2(a) | 328 | 464,557 | 984,392 | 340,068 | 866,986 |
| Provision for unfunded pension scheme | 48.3(b) | 329 | 197,277 | 235,116 | 197,277 | 235,116 |
| Provision for leave encashment | 48.4(b) | 330 | 1,243,285 | 938,088 | 1,243,285 | 938,088 |
| Payable on oil hedging transactions | | | 595,215 | 324,368 | 595,215 | 324,368 |
| Impairment provision in respect of off-balance sheet credit exposures | 57.3 (a) & 57.3 (b) | 345 & 346 | 7,912,462 | 5,365,567 | 7,887,687 | 5,356,900 |
| Other payables | | | 8,795,759 | 10,650,428 | 8,441,926 | 10,389,188 |
| **Total** | | | 40,354,877 | 33,253,518 | 39,860,573 | 33,210,883 |

The maturity analysis of other liabilities is given in Note 60 on pages 348 and 349.

### 48.1 Lease liability

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Balance as at January 01, | | | 5,339,877 | 4,987,197 | 5,751,209 | 4,939,273 |
| Additions during the year | | | 760,373 | 871,554 | 812,389 | 1,492,250 |
| Accretion of interest | 13.2 | 273 | 497,634 | 451,619 | 526,859 | 490,418 |
| Payments | | | (1,446,091) | (1,088,502) | (1,588,045) | (1,270,788) |
| Exchange rate variance | | | 1,188,177 | 118,009 | 988,351 | 100,056 |
| **Balance as at December 31,** | | | 6,339,970 | 5,339,877 | 6,490,763 | 5,751,209 |

The maturity analysis of lease liability is given in Note 60 on pages 348 and 349.

### 48.1 (a) Sensitivity analysis on lease liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Bank as at December 31, 2022.

| | BANK | |
|---|---|---|
| Variable | Sensitivity effect on Statement of Financial Position (Lease liability) Rs. '000 | Sensitivity effect on Income Statement Rs. '000 |
| 1% increase in incremental borrowing rate | (172,671) | 13,525 |
| 1% decrease in incremental borrowing rate | 182,083 | (15,159) |

### 48.1 (b) Undiscounted cash flow

The following table illustrates the maturity analysis of the lease liability of the Bank on the basis of undiscounted cash flows.

| | BANK | |
|---|---|---|
| As at December 31, | 2022 Rs. '000 | 2021 Rs. '000 |
| Less than one year | 1,588,045 | 1,370,034 |
| Between one to five years | 6,214,224 | 4,729,864 |
| Over five years | 2,065,207 | 1,377,251 |
| **Total** | 9,867,476 | 7,477,149 |

### 48.2 Provision for gratuity payable

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

### 48.2 (a) Movement in the provision for gratuity payable (*)

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Balance as at January 01, | | | 984,392 | 1,842,918 | 866,986 | 1,719,971 |
| Expense recognised in the Income Statement | 48.2 (b) | 328 | 25,484 | 59,467 | – | 49,474 |
| Exchange rate variance | | | – | 29,179 | – | 29,179 |
| Amount paid during the year | | | (542,538) | (950,581) | (526,918) | (941,807) |
| Actuarial (gains)/losses recognised in other comprehensive income | | | (2,781) | 3,409 | – | 10,169 |
| **Balance as at December 31,** | | | 464,557 | 984,392 | 340,068 | 866,986 |

*(*) The Bank converted the gratuity liability of its Sri Lankan Operations which was a DBP into a DCPF during the year 2020. Please refer Note 7.8.2.4 on page 268. Similarly, the gratuity liability of the Bangladesh Operations of the Bank transferred in to separate fund namely "Bangladesh Employees' Gratuity Fund" which is independently administered by a Board of Trustees, who shall be appointed by the Bank, during the year 2021. Please refer Note 48.5.3 on page 333.*

### 48.2 (b) Expense recognised in the Income Statement – Gratuity

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Interest cost | 12,976 | 30,094 | – | 21,252 |
| Current service cost | 12,508 | 39,487 | – | 28,222 |
| Past service cost | – | (10,114) | – | – |
| **Total** | 25,484 | 59,467 | – | 49,474 |

### 48.2 (c) Sensitivity analysis on actuarial valuation – Gratuity

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the gratuity valuation of the Group and the Bank as at December 31, 2022.

| | GROUP |
|---|---|
| Variable | Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000 |
| 1% increase in discount rate | (8,728) |
| 1% decrease in discount rate | 9,882 |
| 1% increase in salary | 10,161 |
| 1% decrease in salary | (9,107) |

### 48.3 Provision for unfunded pension scheme

An actuarial valuation of the unfunded pension liability was carried out as at December 31, 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on "Employee Benefits".

### 48.3 (a) Actuarial assumptions

| Type of assumption | Criteria | Description |
|---|---|---|
| Demographic | Mortality – in service | A 1967-70 Mortality table issued by the Institute of Actuaries, London. |
| | After retirement | A (90) Annuities table (Males & Females) issued by the Institute of Actuaries, London. |
| | Staff turnover | The staff turnover rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement.<br>Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bank. |
| | Disability | Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.<br>Disability rates used in this valuation: 10.00% of Mortality table. |
| | Normal retirement age | 55 to 60 years as opted by employees. |
| Financial | Rate of discount | In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 18.00% p.a. (2021 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 16.00% p.a. (2021 – 10.00% p.a.) has been used in respect of the active employees. |
| | Post retirement pension increase rate | There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate of increase was assumed for this valuation. |

### 48.3 (b) Movement in the provision for unfunded pension scheme

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Balance as at January 01, | | | 235,116 | 280,530 | 235,116 | 280,530 |
| Expense recognised in the Income Statement | 48.3 (c) | 329 | 25,863 | 22,442 | 25,863 | 22,442 |
| Amount paid during the year | | | (53,001) | (49,531) | (53,001) | (49,531) |
| Actuarial (gains)/losses recognised in other comprehensive income | | | (10,701) | (18,325) | (10,701) | (18,325) |
| **Balance as at December 31,** | | | **197,277** | 235,116 | **197,277** | 235,116 |

### 48.3 (c) Expense recognised in the Income Statement – Unfunded pension scheme

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| Interest cost | 25,863 | 22,442 | 25,863 | 22,442 |
| **Total** | **25,863** | 22,442 | **25,863** | 22,442 |

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### 48.3 (d) Sensitivity analysis on actuarial valuation – Unfunded pension scheme

The following table illustrates the impact arising from the possible changes in the discount rates and salary escalation rates on the unfunded pension scheme of the Bank as at December 31, 2022.

| | GROUP | BANK |
|---|---|---|
| Variable | **Sensitivity effect on Statement of Financial Position (Benefit obligation)** | **Sensitivity effect on Statement of Financial Position (Benefit obligation)** |
| | **Rs. '000** | **Rs. '000** |
| 1% increase in discount rate | (5,927) | (5,927) |
| 1% decrease in discount rate | 6,334 | 6,334 |
| 1% increase in salary | – | – |
| 1% decrease in salary | – | – |

### 48.4 Provision for leave encashment

An actuarial valuation of the leave encashment liability was carried out as at December 31, 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard, LKAS 19 on "Employee Benefits".

### 48.4 (a) Actuarial assumptions

| Type of assumption | Criteria | Description |
|---|---|---|
| Demographic | Mortality – in service | A 1967-70 Mortality table issued by the Institute of Actuaries, London. |
| | Staff turnover | The probability of a member withdrawing from the scheme within a year of ages between 20 to 55 years. |
| | Disability | Disability rates used in this valuation : 10.00% of mortality table. |
| Financial | Rate of discount | In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 18.00% p.a. (2021 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 16.00% p.a. (2021 – 10.00% p.a.) has been used in respect of the active employees. |

### 48.4 (b) Movement in the provision for leave encashment

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | | | **2022** | 2021 | **2022** | 2021 |
| | Note | Page No. | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | | | 938,088 | 926,686 | 938,088 | 926,686 |
| Expense recognised in the Income Statement | 48.4 (c) | 330 | 410,656 | 74,135 | 410,656 | 74,135 |
| Amount paid during the year | | | (185,289) | (116,083) | (185,289) | (116,083) |
| Actuarial (gains)/losses recognised in Other Comprehensive Income | | | 79,830 | 53,350 | 79,830 | 53,350 |
| **Balance as at December 31,** | | | **1,243,285** | 938,088 | **1,243,285** | 938,088 |

### 48.4 (c) Expense recognised in the Income Statement – Leave encashment

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Interest cost | 103,190 | 74,135 | 103,190 | 74,135 |
| Cost of accrued liability due to plan amendment | 307,466 | – | 307,466 | – |
| **Total** | **410,656** | 74,135 | **410,656** | 74,135 |

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### 48.4 (d) Sensitivity analysis on actuarial valuation – Leave encashment

The following table illustrates the impact arising from the possible changes in the discount rate and salary escalation rates on the leave encashment liability valuation of the Bank as at December 31, 2022.

| | GROUP | BANK |
|---|---|---|
| Variable | Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000 | Sensitivity effect on Statement of Financial Position (Benefit obligation) Rs. '000 |
| 1% increase in discount rate | (56,837) | (56,837) |
| 1% decrease in discount rate | 62,279 | 62,279 |
| 1% increase in salary | 64,121 | 64,121 |
| 1% decrease in salary | (59,407) | (59,407) |

## 48.5 Employee retirement benefit

### 48.5.1 Pension fund – Defined benefit plan

An actuarial valuation of the Retirement Pension Fund was carried out as at December 31, 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

### 48.5.1 (a) Actuarial assumptions

| Type of assumption | Criteria | Description |
|---|---|---|
| Demographic | Mortality – in service | A 1967-70 Mortality table issued by the Institute of Actuaries, London. |
| | After retirement | A (90) Annuities table (Males & Females) issued by the Institute of Actuaries, London. |
| | Staff turnover | The staff turnover rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement.<br>Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bank. |
| | Disability | Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.<br>Disability rates used in this valuation: 10.00% of Mortality table. |
| | Normal retirement age | 55 to 60 years as opted by employees. |
| Financial | Rate of discount | In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 18.00% p.a. (2021 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 16.00% p.a. (2021 – 10.00% p.a.) has been used in respect of the active employees. |
| | Post-retirement pension increase rate | There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate of increase was assumed for this valuation. |

### 48.5.1 (b) Movement in the present value of defined benefit obligation – Bank

| | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|
| Balance as at January 01, | 254,402 | 294,685 |
| Interest cost | 27,984 | 23,575 |
| Current service cost | 3,459 | 3,174 |
| Benefits paid during the year | (26,911) | (37,761) |
| Actuarial (gains)/losses | (59,016) | (29,271) |
| **Balance as at December 31,** | 199,918 | 254,402 |

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### 48.5.1 (c) Movement in the fair value of plan assets – Bank

| | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
|---|---|---|
| Fair value as at January 01, | 271,969 | 255,617 |
| Refund of excess contribution made in previous years | (17,567) | – |
| Expected return on plan assets | 29,917 | 23,575 |
| Contribution paid into plan | 2,699 | 41,493 |
| Benefits paid by the plan | (26,911) | (37,761) |
| Actuarial gains/(losses) on plan assets | (19,969) | (10,955) |
| **Fair value as at December 31,** | **240,138** | 271,969 |

### 48.5.1 (d) Liability recognised in the Statement of Financial Position

| | Note | Page No. | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
|---|---|---|---|---|
| Present value of defined benefit obligations as at December 31, | 48.5.1 (b) | 331 | 199,918 | 254,402 |
| Fair value of plan assets | 48.5.1 (c) | 332 | (240,138) | (271,969) |
| **Net liability recognised under other liabilities** | | | **(40,220)** | (17,567) |

### 48.5.1 (e) Plan assets consist of the following:

| *As at December 31,* | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
|---|---|---|
| Deposits held with the Bank | 240,138 | 271,969 |
| **Total** | **240,138** | 271,969 |

### 48.5.2 W&OP Fund – Defined benefit plan

An actuarial valuation of the Retirement Pension W&OP Fund was carried out as at December 31, 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

### 48.5.2 (a) Actuarial assumptions

| Type of assumption | Criteria | Description |
|---|---|---|
| Demographic | Mortality – In service | A 1967-70 Mortality table issued by the Institute of Actuaries, London. |
| | After retirement | A (90) Annuities table (Males and Females) issued by the Institute of Actuaries, London. |
| | Staff turnover | The staff turnover rate at an age represents the probability of an active employee leaving within one year of that age due to reasons other than death, ill health and normal retirement.<br>Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bank. |
| | Disability | Assumptions similar to those used in other comparable schemes for disability were used as the data required to do a "scheme specific" study was not available.<br>Disability rates used in this valuation : 10.00% of Mortality table. |
| | Normal retirement age | 55 to 60 years as opted by employees. |
| Financial | Rate of discount | In the absence of a deep market in long term bonds in Sri Lanka, a long term interest rate of 18.00% p.a. (2021 – 11.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 16.00% p.a. (2021 – 10.00% p.a.) has been used in respect of the active employees. |
| | Post-retirement pension increase rate | There is no agreed rate of increase even though the pension payments are subject to periodic increases, and increases are granted solely at the discretion of the Bank. Therefore, no specific rate of increase was assumed for this valuation. |

### 48.5.2 (b) Movement in the present value of defined benefit obligation – Bank

| | 2022 | 2021 |
|---|---|---|
| | Rs. '000 | Rs. '000 |
| Balance as at January 01, | 79,708 | 98,216 |
| Interest cost | 8,768 | 7,857 |
| Current service cost | 351 | 296 |
| Benefits paid during the year | (8,972) | (7,506) |
| Actuarial (gains)/losses | (19,578) | (19,155) |
| **Balance as at December 31,** | **60,277** | 79,708 |

### 48.5.2 (c) Movement in the fair value of plan assets

| | 2022 | 2021 |
|---|---|---|
| | Rs. '000 | Rs. '000 |
| Fair value as at January 01, | 94,771 | 75,084 |
| Refund of excess contribution made in previous years | (15,065) | – |
| Expected return on plan assets | 10,425 | 7,857 |
| Contribution paid into plan | 247 | 23,353 |
| Benefits paid by the plan | (8,972) | (7,506) |
| Actuarial gains/(losses) on plan assets | 383 | (4,017) |
| **Fair value as at December 31,** | **81,789** | 94,771 |

### 48.5.2 (d) Liability recognised in the Statement of Financial Position

| | | | 2022 | 2021 |
|---|---|---|---|---|
| | Note | Page No. | Rs. '000 | Rs. '000 |
| Present value of defined benefit obligations as at December 31, | 48.5.2 (b) | 333 | 60,277 | 79,708 |
| Fair value of plan assets | 48.5.2 (c) | 333 | (81,789) | (94,771) |
| **Net liability recognised under other liabilities** | | | **(21,512)** | (15,063) |

### 48.5.2 (e) Plan assets consist of the following:

| *As at December 31,* | 2022 | 2021 |
|---|---|---|
| | Rs. '000 | Rs. '000 |
| Deposits held with the Bank | 81,789 | 94,771 |
| **Total** | **81,789** | 94,771 |

### 48.5.3 Gratuity Fund Bangladesh Operations – Defined Benefit Plan

An actuarial valuation of the retirement gratuity payable was carried out as at December 31, 2022 by Mr M Poopalanathan, AIA, of Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional Actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method (PUC)", the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The assets of the fund, which are independently administered by the Trustees as per the provisions of the Trust Deed are held separately from those of the Bank.

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### 48.5.3 (a) Actuarial assumptions

| Type of assumption | Criteria | Description |
|---|---|---|
| Demographic | Mortality – In service | A 1967-70 Mortality table issued by the Institute of Actuaries, London. |
| | Staff turnover | The staff turnover rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill health and normal retirement.<br>Staff turnover rates used in this valuation have been determined based on the staff turnover statistics of the Bangladesh Operations of the Bank. |
| | Normal retirement age | 59 Years |
| | Average future working life time | 14 Years |
| Financial | Rate of discount | In the absence of long term high quality corporate bonds or government bonds with the term that matches liabilities, a long term interest rate of 8.00% p.a. (2021 – 8.00% p.a.) has been used to discount future liabilities considering anticipated long term rate of inflation. |
| | Salary increases | A salary increment of 10.00% p.a. (2021 – 9.00% p.a.) has been used in respect of the active employees. |

### 48.5.3 (b) Movement in the present value of defined benefit obligation – Bank

| | **2022**<br>**Rs. '000** | 2021<br>Rs. '000 |
|---|---|---|
| Balance as at January 01, | **456,868** | – |
| Transferred | **–** | 515,053 |
| Interest cost | **55,469** | 10,626 |
| Current service cost | **67,993** | 14,111 |
| Past service cost | **27,165** | – |
| Benefits paid during the year | **(52,729)** | (29,750) |
| Actuarial (gains)/losses | **60,460** | (48,760) |
| Exchange rate variance | **250,691** | (4,412) |
| **Balance as at December 31,** | **865,917** | 456,868 |

### 48.5.3 (c) Movement in the fair value of plan assets

| | **2022**<br>**Rs. '000** | 2021<br>Rs. '000 |
|---|---|---|
| Fair value as at January 01, | **504,584** | – |
| Transferred | **–** | 515,053 |
| Expected return on plan assets | **61,262** | 12,258 |
| Contribution paid into plan | **167,607** | 22,366 |
| Benefits paid by the plan | **(52,729)** | (29,750) |
| Actuarial gains/(losses) on plan assets | **(90,197)** | (10,470) |
| Exchange rate variance | **275,390** | (4,873) |
| **Fair value as at December 31,** | **865,917** | 504,584 |

### 48.5.3 (d) Liability recognised in the Statement of Financial Position

| | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|---|---|
| Present value of defined benefit obligations as at December 31, | 48.5.3 (b) | 334 | 865,917 | 456,868 |
| Fair value of plan assets | 48.5.3 (c) | 334 | (865,917) | (504,584) |
| **Net liability recognised under other liabilities** | | | – | (47,716) |

### 48.5.3 (e) Plan assets consist of the following:

| *As at December 31,* | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|
| Deposits held with the Bank | 865,917 | 504,584 |
| **Total** | 865,917 | 504,584 |

### 48.5.4 Defined Contribution Plans

#### 48.5.4 (a) Defined Contribution Plan – Pension Fund 2006

During 2006, the Bank restructured its pension scheme which was a Defined Benefit Plan (DBP) to a Defined Contribution Plan (DCP). This restructured plan was offered on a voluntary basis to the eligible employees of the Bank. The scheme provided for lump sum payments instead of commuted/monthly pension to the eligible employees at the point of their separation, in return for surrendering their pension rights. The lump sum offered consisted of a past service package and future service package. The cost to be incurred on account of the past service package in excess of the funds available in the pension fund was borne by the Bank in 2006.

The future service package includes monthly contributions to be made by the Bank for the employees who accepted the offer, to be made during their remaining period of service, at predetermined contribution rates to be applied on their salaries, estimated to increase for this purpose at 10.00% p.a. In addition, interest to be earned on the assets of the DCP is also allocated to the employees who joined the restructured scheme.

The Bank is in the process of evaluating its pension liabilities in light of the retirement age revision mandated by the "Minimum Retirement Age of Workers Act No. 28 of 2021". However, as the majority of Bank employees had already consented to retire at the age of 60, the Bank is of the view that the potential impact on the Bank's Financial Statements from the revision of the retirement age is insignificant.

#### 48.5.4 (b) Defined Contribution Plan – Pension Fund 2020

The Bank converted its gratuity scheme of Sri Lankan operations, which was a Defined Benefit Plan (DBP), to a Defined Contribution Plan (DCP) during the year 2020. Refer Note 7.8.2.4 for further details on page no. 268.

## 49. Due to subsidiaries

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | 2022 Rs. '000 | 2021 Rs. '000 | 2022 Rs. '000 | 2021 Rs. '000 |
| **Local subsidiaries** | | | | |
| Commercial Development Company PLC | – | – | 32,785 | 21,050 |
| CBC Tech Solutions Limited | – | – | 82,699 | 27,649 |
| CBC Finance Limited | – | – | – | – |
| Commercial Insurance Brokers (Private) Limited | – | – | – | – |
| **Sub total** | – | – | 115,484 | 48,699 |
| **Foreign subsidiaries** | | | | |
| Commex Sri Lanka S.R.L. – Italy | – | – | – | – |
| Commercial Bank of Maldives Private Limited | – | – | – | – |
| CBC Myanmar Microfinance Company Limited | – | – | – | – |
| **Subtotal** | – | – | – | – |
| **Total** | – | – | 115,484 | 48,699 |

The maturity analysis of due to subsidiaries is given in Note 60 on pages 348 and 349.

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## 50. Subordinated liabilities

**ACCOUNTING POLICY**

These represent the funds borrowed by the Group for long-term funding requirements. Subsequent to initial recognition these are measured at their amortised cost using the EIR method, except where the Group designates them at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

| | Note | Page No. | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|
| Balance as at January 01, | | | 37,272,760 | 37,204,430 | 37,272,760 | 37,204,430 |
| Amount borrowed during the year (*) | | | 10,000,000 | 8,595,470 | 10,000,000 | 8,595,470 |
| Repayments/redemptions during the year | | | – | (9,502,140) | – | (9,502,140) |
| **Subtotal** | | | 47,272,760 | 36,297,760 | 47,272,760 | 36,297,760 |
| Exchange rate variance | | | 12,525,000 | 975,000 | 12,525,000 | 975,000 |
| **Balance as at December 31, (before adjusting for amortised interest and transaction cost)** | 50.1 | 337 | 59,797,760 | 37,272,760 | 59,797,760 | 37,272,760 |
| Unamortised transaction cost | | | (3,053) | (15,263) | (3,053) | (15,263) |
| Net effect of amortised interest payable | | | 1,606,260 | 1,045,969 | 1,606,260 | 1,045,969 |
| **Adjusted balance as at December 31,** | | | 61,400,967 | 38,303,466 | 61,400,967 | 38,303,466 |

(*) The Bank announced a debenture issue in August 2022 to issue 50,000,000 Basel III compliant – Tier 2, listed, rated, unsecured, subordinated, redeemable debentures of Rs. 100/- each, with a non-viability conversion feature amounting to Rs. 5 Bn. with an option to issue up to a further 50,000,000 debentures amounting to Rs. 5 Bn. This debenture issue was opened for investors on December 01, 2022, and initial issue was oversubscribed on the same day. The allotment and the listing of debentures were concluded on December 12, 2022, and December 16, 2022, respectively.

The quantum of funds raised through the above Debenture Issue was/will be utilised to achieve the following objectives as stipulated in the prospectus.

(a) Improve the Tier 2 capital base thus, increasing the Capital Adequacy Ratio (CAR)

(b) Reduce maturity gaps in the assets and liabilities of the Bank

(c) Grow the lending portfolio, especially in segments such as Small and Medium Enterprises (SME) and export oriented industries

As stated in the prospectus, the following table indicates utilisation of funds raised through the above debentures.

<table>
<tr><th>Objective number</th><th>Objective as per prospectus</th><th>Amount allocated as per prospectus</th><th>Proposed date of utilisation as per prospectus</th><th>Amount allocated from proceeds (A)</th><th>% of total proceeds</th><th>Amounts utilised (B)</th><th>% of utilisation against allocation (B/A)</th><th>Clarification if not fully-utilised including where the funds are invested (eg: whether lent to related party/s etc.)</th></tr>
<tr><td>1</td><td>Improve the Tier 2 capital base thus, increasing the Capital Adequacy Ratio (CAR)</td><td rowspan="3">Rs. 10 Bn.</td><td rowspan="2">Subsequent to the allotment of Debentures</td><td rowspan="3">Rs. 10 Bn.</td><td rowspan="3">100</td><td rowspan="2">Rs. 10 Bn.</td><td rowspan="2">100</td><td rowspan="2">N/A</td></tr>
<tr><td>2</td><td>Reduce maturity gaps in the assets and liabilities of the Bank</td></tr>
<tr><td>3</td><td>Grow the lending portfolio, especially in segments such as Small and Medium Enterprises (SME) and export oriented industries</td><td>Within 12 months from date of receipt of cash flows</td><td>–</td><td>–</td><td>Funds will be utilised within 12 months from the date of receipt cash flows</td></tr>
</table>

## 50.1 Categories of subordinated liabilities

| Categories | Colombo Stock Exchange Listing | Interest payable frequency | Allotment date | Maturity date | Effective annual yield 2022 % | Effective annual yield 2021 % | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fixed Rate Debentures** | | | | | | | | | | |
| 2016/2026 – 11.25% p.a. | Listed | Biannually | 09.03.2016 | 08.03.2026 | 11.57 | 11.57 | 1,749,090 | 1,749,090 | 1,749,090 | 1,749,090 |
| 2016/2026 – 12.25% p.a. | Listed | Biannually | 28.10.2016 | 27.10.2026 | 12.63 | 12.63 | 1,928,200 | 1,928,200 | 1,928,200 | 1,928,200 |
| 2018/2023 – 12.00% p.a. | Listed | Biannually | 23.07.2018 | 22.07.2023 | 12.36 | 12.36 | 8,393,840 | 8,393,840 | 8,393,840 | 8,393,840 |
| 2018/2028 – 12.50% p.a. | Listed | Biannually | 23.07.2018 | 22.07.2028 | 12.89 | 12.89 | 1,606,160 | 1,606,160 | 1,606,160 | 1,606,160 |
| 2021/2026 – 9.00% p.a. | Listed | Biannually | 21.09.2021 | 20.09.2026 | 9.20 | 9.20 | 4,237,470 | 4,237,470 | 4,237,470 | 4,237,470 |
| 2021/2028 – 9.50% p.a. | Listed | Biannually | 21.09.2021 | 20.09.2028 | 9.73 | 9.73 | 4,358,000 | 4,358,000 | 4,358,000 | 4,358,000 |
| 2022/2027 – 28.00% p.a. | Listed | Biannually | 12.12.2022 | 11.12.2027 | 29.96 | – | 6,724,680 | – | 6,724,680 | – |
| 2022/2029 – 27.00% p.a. | Listed | Biannually | 12.12.2022 | 11.12.2029 | 28.82 | – | 3,263,820 | – | 3,263,820 | – |
| 2022/2032 – 22.00% p.a. | Listed | Biannually | 12.12.2022 | 11.12.2032 | 23.21 | – | 11,500 | – | 11,500 | – |
| **Floating rate subordinated loans** | | | | | | | | | | |
| IFC Borrowings – 6 M LIBOR + 5.75% | | Biannually | 13.03.2013 | 14.03.2023 | 10.289 | 5.907 | 27,525,000 | 15,000,000 | 27,525,000 | 15,000,000 |
| **Total** | | | | | | | 59,797,760 | 37,272,760 | 59,797,760 | 37,272,760 |

## 50.2 Subordinated liabilities by maturity

| *As at December 31,* | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Payable within one year | 35,918,840 | – | 35,918,840 | – |
| Payable after one year | 23,878,920 | 37,272,760 | 23,878,920 | 37,272,760 |
| **Total** | 59,797,760 | 37,272,760 | 59,797,760 | 37,272,760 |

In the event of the winding-up of the issuer, the above liabilities would be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of principal, interest, or other breaches with respect to its subordinated liabilities during the year ended December 31, 2022.

The maturity analysis of subordinated liabilities is given in Note 60 on pages 348 and 349.

## 51. Stated capital

ACCOUNTING POLICY

Ordinary shares in the Bank are recognised at the amount paid per ordinary share net of directly attributable issue cost.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Balance as at January 01, | | | 54,566,957 | 52,187,747 | 54,566,957 | 52,187,747 |
| Issue of ordinary voting shares under the employee share option plans | | | – | 40,866 | – | 40,866 |
| Transfer from employee share option reserve | 55.5 | 343 | – | 3,646 | – | 3,646 |
| Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares | | | 3,582,664 | 2,334,698 | 3,582,664 | 2,334,698 |
| Ordinary voting shares | | | 3,373,442 | 2,198,757 | 3,373,442 | 2,198,757 |
| Ordinary non-voting shares | | | 209,222 | 135,941 | 209,222 | 135,941 |
| **Balance as at December 31,** | | | 58,149,621 | 54,566,957 | 58,149,621 | 54,566,957 |

### 51.1 Movement in number of shares

| | Number of ordinary voting shares | | Number of ordinary non-voting shares | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Balance as at January 01, | 1,124,480,528 | 1,098,934,937 | 69,740,771 | 67,970,701 |
| Issue of ordinary voting shares under the employee share option plan | – | 474,254 | – | – |
| Issue of ordinary shares as part of the final dividend satisfied in the form of issue and allotment of new shares | 42,755,914 | 25,071,337 | 2,800,834 | 1,770,070 |
| **Balance as at December 31,** | 1,167,236,442 | 1,124,480,528 | 72,541,605 | 69,740,771 |

The shares of Commercial Bank of Ceylon PLC are quoted on the Colombo Stock Exchange. The non-voting ordinary shares of the Bank, rank pari passu in respect of all rights with the ordinary voting shares of the Bank except voting rights on Resolutions passed at General Meetings.

The holders of ordinary shares are entitled to receive dividends declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

The Bank has offered employee share option plans. Refer Note 52 on page 338.

## 52. Share-based payment

### 52.1 Description of the Share-based Payment Arrangement

As at the reporting date, the Group had the following equity settled Share-based Payment Arrangement which was granted after January 01, 2012, the effective date of the Accounting Standard SLFRS 2 on "Share-based Payment".

#### Employee Share Option Plan – 2015

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on March 31, 2015, to introduce an Employee Share Option Plan for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% share in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period at vesting dates of each tranche. The Employee share option plan – 2015 mentioned above was expired in 2021.

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### Employee Share Option Plan – 2019

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held on January 30, 2020, to introduce an Employee Share Option Plan for the benefit of all Executive Officers in Grade 1A and above by creating up to 2% of the ordinary voting shares at the rate of 0.5% shares in the first two years and 1% share in the last year over a period of three to five years, upon the Bank achieving specified performance targets. The performance conditions include minimum performance targets over the budget and over the industry peers and the service conditions include the fulfilment of the minimum service period at vesting dates of each tranche.

Key terms and conditions related to the offer are detailed below:

| | Tranches | | |
|---|---|---|---|
| | Tranche I | Tranche II | Tranche III |
| Percentage of issue of new voting shares (Maximum) | 0.50% | 0.50% | 1.00% |
| Date granted | January 30, 2020 | January 30, 2020 | January 30, 2020 |
| Exercise price (Rs.) | 91.65 | 85.13 | 87.39 |
| Exercisable between | July 01, 2020 to June 30, 2023 | October 01, 2020 to September 30, 2023 | October 01, 2021 to September 30, 2024 |
| Date of vesting | June 30, 2020 | September 30, 2020 | September 30, 2021 |
| Vesting conditions | 6 Months of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2018 | 6 Months of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2019 | 6 Months of service from the grant date and the fulfilment of performance conditions stated above for the Financial Year 2020 |
| **Number of options vested on the date of vesting** | | | |
| Options granted to key management personnel | 56,588 | 62,821 | 131,255 |
| Option granted to other executive officers | 4,749,197 | 4,743,061 | 11,071,741 |
| **Total options vested on the date of vesting** | 4,805,785 | 4,805,882 | 11,202,996 |
| Options cancelled due to non-acceptance | – | – | – |
| Number of options exercised up to December 31, 2022 | (73,510) | (394,997) | (5,747) |
| **Number of options to be exercised as at December 31, 2022** | 4,732,275 | 4,410,885 | 11,197,249 |

All options are to be settled by physical delivery of ordinary voting shares of the Bank. There are neither cash settlement alternatives nor the Bank has a past practise of cash settlement for these types of options.

The exercise price of each tranche is computed based on a volume-weighted average market price of the Bank's ordinary (voting) shares, during the period of thirty (30) market days, six months prior to the date of vesting.

### 52.2 Measurement of fair value

As required by SLFRS 2 on "Share-based Payment", the fair value of the ESOP 2019 was estimated at the grant date using the Binomial Valuation Model taking into consideration various terms and conditions upon which the share options are granted.

The inputs used in measurement of fair value at the grant date of ESOP 2019 were as follows:

| | Tranches | | |
|---|---|---|---|
| Description of the valuation input | Tranche I | Tranche II | Tranche III |
| Expected dividend rate (%) | 4.31 | 4.31 | 4.31 |
| Risk free rate (%) | 8.22 | 8.22 | 8.22 |
| Probability of share price increase (%) | 55.00 | 55.00 | 55.00 |
| Probability of share price decrease (%) | 45.00 | 45.00 | 45.00 |
| Size of annual increase of share price (%) | 19.00 | 19.00 | 19.00 |
| Size of annual reduction in share price (%) | (12.00) | (12.00) | (12.00) |
| Original expected exercise price (Rs.) | 100.22 | 100.74 | 101.45 |

Growths in share prices stated above have been based on evaluation of the historical volatility of the Bank's share price over past 10 years, adjusted for post-war growth in All Share Price Index (ASPI) published by the Colombo Stock Exchange.

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### 52.3 Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options are as follows:

| Tranche | Tranche I | | Tranche II | | Tranche III | |
|---|---|---|---|---|---|---|
| Exercise price | 91.65 | | 85.13 | | 87.39 | |
| **Year** | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| No. of voting shares vested and to be vested as at January 01, | 4,732,275 | 4,805,785 | 4,410,885 | 4,805,882 | 11,197,249 | – |
| Granted during the year | – | – | – | – | – | 11,202,996 |
| Exercised during the year | – | (73,510) | – | (394,997) | – | (5,747) |
| Number of options expired | – | – | – | – | – | – |
| No. of voting shares vested and to be vested as at December 31, | 4,732,275 | 4,732,275 | 4,410,885 | 4,410,885 | 11,197,249 | 11,197,249 |

### 52.4 Expense recognised in Income Statement

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. Accordingly, the expense in the Income Statement represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense Refer Note 19 on page 280.

### 52.5 Certificate from Auditors on ESOP schemes

The Bank has obtained a certification from the external auditors that the above ESOP schemes have been implemented in accordance with the requirements of the Section 5.6 of the Listing Rules of the CSE and the Special Resolutions passed at the General Meetings at which the schemes were approved by the shareholders.

## 53. Statutory reserves

ACCOUNTING POLICY

Several statutory and voluntary reserves are maintained by the Group in order to meet various legal and operational requirements. The details of these reserves including the nature and purpose of maintaining them are given in Notes 53, 54 and 55 on pages 340 to 341.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Statutory reserve fund | 53.1 | 340 | 12,079,670 | 10,590,338 | 11,352,858 | 10,204,368 |
| **Total** | | | 12,079,670 | 10,590,338 | 11,352,858 | 10,204,368 |

### 53.1 Statutory reserve fund

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Balance as at January 01, | 10,590,338 | 9,285,233 | 10,204,368 | 9,024,065 |
| Transfers made during the year | 1,766,584 | 1,401,177 | 1,148,490 | 1,180,303 |
| Statutory reserve attributable to non-controlling interest | (277,252) | (96,072) | – | – |
| Balance as at December 31, | 12,079,670 | 10,590,338 | 11,352,858 | 10,204,368 |

The statutory reserve fund of the Bank is maintained as per the requirements under Section 20 (1) of the Banking Act No. 30 of 1988. Accordingly, the fund is built up by allocating a sum equivalent to not less than 5% of the profit after tax, but before declaring any dividend or any profits that are transferred elsewhere until the reserve is equal to 50% of the Bank's stated capital and thereafter a further sum equivalent to 2% of such profit until the amount of the said reserve fund is equal to the stated capital of the Bank.

The balance in the statutory reserve fund of the Bank will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

## 54. Retained earnings

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | 9,890,762 | 8,124,261 | 9,028,265 | 7,596,260 |
| Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 (*) | (5,205,524) | – | (5,036,184) | – |
| Adjusted balance as at January 01, | 4,685,238 | 8,124,261 | 3,992,081 | 7,596,260 |
| Total comprehensive income | 23,800,552 | 24,071,116 | 22,954,998 | 23,612,102 |
| Profit for the year | 23,811,914 | 24,062,469 | 22,969,791 | 23,606,051 |
| Other comprehensive income, net of tax | (11,362) | 8,647 | (14,793) | 6,051 |
| Dividends paid | (8,956,660) | (7,587,768) | (8,956,660) | (7,587,768) |
| Unclaimed dividend absorbed/(dividend paid) in respect of previous years | 30,506 | 94,070 | 30,192 | 93,786 |
| Transfer of cost o/a of expired ESOP Shares (net of tax) | – | 244,188 | – | 244,188 |
| Transfers to other reserves | (12,769,332) | (15,055,105) | (12,428,490) | (14,930,303) |
| **Balance as at December 31,** | 6,790,304 | 9,890,762 | 5,592,121 | 9,028,265 |

*(*) The Government of Sri Lanka in its Budget for 2022 proposed a one-time tax, referred to as a Surcharge Tax, at the rate of 25% to be imposed on companies that have earned a taxable income in excess of Rs. 2,000 Mn. for the year of assessment 2020/21 and same was applicable to the Commercial Bank Group as the combined taxable income of the applicable companies of the Group exceeded Rs. 2,000 Mn. for the referred year of assessment.*

*Total Surcharge Tax liability of Rs. 5,217 Mn., and Rs. 5,036 Mn., has been recognised for the Group and the Bank respectively as an adjustment to the retained earnings as at January 01, 2022 in the Statement of Changes in Equity.*

## 55. Other reserves

### 55. (a) Current year – 2022

| | | | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Page No. | **Balance as at January 01, Rs. '000** | **Movement/ transfers Rs. '000** | **Balance as at December 31, Rs. '000** | **Balance as at January 01, Rs. '000** | **Movement/ transfers Rs. '000** | **Balance as at December 31, Rs. '000** |
| Revaluation reserve | 55.1 | 342 | 11,084,711 | (870,467) | 10,214,244 | 10,195,652 | (799,110) | 9,396,542 |
| General reserve | 55.2 | 342 | 88,720,003 | 11,280,000 | 100,000,003 | 88,720,003 | 11,280,000 | 100,000,003 |
| Fair value reserve | 55.3 | 342 | (11,979,313) | 12,051,583 | 72,270 | (11,980,175) | 12,058,918 | 78,743 |
| Foreign currency translation reserve | 55.4 | 343 | 4,507,072 | 16,864,899 | 21,371,971 | 4,064,722 | 14,876,983 | 18,941,705 |
| Employee share option reserve | 55.5 | 343 | 150,529 | – | 150,529 | 150,529 | – | 150,529 |
| Hedging reserve | 55.6 | 343 | (56,342) | 92,896 | 36,554 | (56,342) | 92,896 | 36,554 |
| **Total** | | | 92,426,660 | 39,418,911 | 131,845,571 | 91,094,389 | 37,509,687 | 128,604,076 |

### 55. (b) Previous year – 2021

| | | | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Page No. | Balance as at January 01, Rs. '000 | Movement/ transfers Rs. '000 | Balance as at December 31, Rs. '000 | Balance as at January 01, Rs. '000 | Movement/ transfers Rs. '000 | Balance as at December 31, Rs. '000 |
| Revaluation reserve | 55.1 | 342 | 10,504,768 | 579,943 | 11,084,711 | 9,662,912 | 532,740 | 10,195,652 |
| General reserve | 55.2 | 342 | 74,970,003 | 13,750,000 | 88,720,003 | 74,970,003 | 13,750,000 | 88,720,003 |
| Fair value reserve | 55.3 | 342 | 463,884 | (12,443,197) | (11,979,313) | 462,331 | (12,442,506) | (11,980,175) |
| Foreign currency translation reserve | 55.4 | 343 | 3,325,924 | 1,181,148 | 4,507,072 | 2,911,866 | 1,152,856 | 4,064,722 |
| Employee share option reserve | 55.5 | 343 | 433,503 | (282,974) | 150,529 | 433,503 | (282,974) | 150,529 |
| Hedging reserve | 55.6 | 343 | (102,511) | 46,169 | (56,342) | (102,511) | 46,169 | (56,342) |
| **Total** | | | 89,595,571 | 2,831,089 | 92,426,660 | 88,338,104 | 2,756,285 | 91,094,389 |

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## 55.1 Revaluation reserve

ACCOUNTING POLICY

The revaluation reserve relates to revaluation of freehold land and buildings and represents the fair value changes of the land and buildings, as at the date of revaluation.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | 11,084,711 | 10,504,768 | 10,195,652 | 9,662,912 |
| Deferred tax effect on revaluation surplus on freehold land and buildings | (884,829) | 589,166 | (799,110) | 532,740 |
| Deferred tax effect on revaluation surplus on freehold land and buildings attributable to Non-Controlling Interest | 14,362 | (9,223) | – | – |
| **Balance as at December 31,** | 10,214,244 | 11,084,711 | 9,396,542 | 10,195,652 |

## 55.2 General reserve

ACCOUNTING POLICY

The Bank transfers the surplus profit, after payment of interim dividend and after retaining sufficient profits to pay final dividends proposed, from the retained earnings account to the General Reserve account. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | 88,720,003 | 74,970,003 | 88,720,003 | 74,970,003 |
| Transfers during the year | 11,280,000 | 13,750,000 | 11,280,000 | 13,750,000 |
| **Balance as at December 31,** | 100,000,003 | 88,720,003 | 100,000,003 | 88,720,003 |

## 55.3 Fair value reserve

ACCOUNTING POLICY

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | (11,979,313) | 463,884 | (11,980,175) | 462,331 |
| Net fair value gains/(losses) on remeasuring financial assets at fair value through other comprehensive income | 12,052,982 | (12,441,685) | 12,058,918 | (12,442,506) |
| Share of other comprehensive income/(expense) of associate, net of tax | (1,399) | (1,512) | – | – |
| **Balance as at December 31,** | 72,270 | (11,979,313) | 78,743 | (11,980,175) |

### 55.4 Foreign currency translation reserve

ACCOUNTING POLICY

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

As at the reporting date, the assets and liabilities of the Bank's Bangladesh Operation and the foreign subsidiaries of the Bank were translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Statement of Profit or Loss and Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statements are taken to foreign currency translation reserve through other comprehensive income.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | 4,507,072 | 3,325,924 | 4,064,722 | 2,911,866 |
| Net unrealised gains/(losses) arising from translating the Financial Statements of foreign operations | 18,347,815 | 1,278,891 | 14,876,983 | 1,152,856 |
| Foreign Currency Translation Reserve attributable to non-controlling Interest | (1,482,916) | (97,743) | – | – |
| **Balance as at December 31,** | 21,371,971 | 4,507,072 | 18,941,705 | 4,064,722 |

### 55.5 Employee share option reserve

ACCOUNTING POLICY

The employee share option reserve is used to recognise the value of equity-settled share-based payments to be provided to employees, including Key Management Personnel, as part of their remuneration.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| | | | **2022** | 2021 | **2022** | 2021 |
| | Note | Page No. | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | | | 150,529 | 433,503 | 150,529 | 433,503 |
| Share-based payments expense during the year | 19 | 280 | – | 41,972 | – | 41,972 |
| Transfers to stated capital | 51 | 338 | – | (3,646) | – | (3,646) |
| Transfer to retained earnings on expired ESOP | | | – | (321,300) | – | (321,300) |
| **Balance as at December 31,** | | | 150,529 | 150,529 | 150,529 | 150,529 |

### 55.6 Hedging reserve

ACCOUNTING POLICY

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedge cash flows affect profit or loss.

| | GROUP | | BANK | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | (56,342) | (102,511) | (56,342) | (102,511) |
| Net gains/(losses) that arose during the year, net of tax | 92,896 | 46,169 | 92,896 | 46,169 |
| **Balance as at December 31,** | 36,554 | (56,342) | 36,554 | (56,342) |

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## 56. Non-controlling interest

**ACCOUNTING POLICY**

Non-Controlling Interest (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Accordingly, the Bank has non-controlling interest in three subsidiaries namely, Commercial Development Company PLC (NCI of 10%), Commercial Insurance Brokers (Private) Limited (NCI 40%) and Commercial Bank of Maldives Private Limited (NCI of 45%) as at the reporting date as follows:

| | **2022** **Rs. '000** | 2021 Rs. '000 |
|---|---|---|
| Balance as at December 31, | 2,077,811 | 1,755,897 |
| Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 | (11,050) | – |
| Adjusted balance as at January 01, | 2,066,761 | 1,755,897 |
| Profit for the year | 587,558 | 227,819 |
| Other comprehensive income, net of tax | 1,467,454 | 109,263 |
| Dividends paid for the year | (14,400) | (15,200) |
| Unclaimed dividend absorbed/(dividend paid) in respect of previous years | 35 | 32 |
| **Balance as at December 31,** | **4,107,408** | 2,077,811 |

## 57. Contingent liabilities and commitments

**ACCOUNTING POLICY**

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on "Provisions, Contingent Liabilities and Contingent Assets".

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

In the normal course of business, the Bank makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Even though these obligations may not be recognised on the Statement of Financial Position, they may contain credit risk and are therefore part of the overall risk of the Group.

| | | | GROUP | | BANK | |
|---|---|---|---|---|---|---|
| *As at December 31,* | Note | Page No. | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| **Contingencies** | | | 416,081,715 | 537,650,958 | 415,235,523 | 536,752,669 |
| Guarantees | | | 61,564,425 | 74,840,308 | 62,296,878 | 75,099,826 |
| Performance bonds | | | 72,977,891 | 36,147,208 | 71,888,851 | 36,127,300 |
| Documentary credits | | | 49,453,306 | 84,535,733 | 49,339,057 | 83,555,655 |
| Other contingencies | 57.1 | 345 | 232,086,093 | 342,127,709 | 231,710,737 | 341,969,888 |
| **Commitments** | | | 139,449,822 | 147,728,070 | 134,186,176 | 145,647,114 |
| Undrawn commitments on direct advances | | | 137,171,860 | 145,471,161 | 132,065,118 | 143,400,310 |
| Capital commitments | 57.2 | 345 | 2,277,962 | 2,256,909 | 2,121,058 | 2,246,804 |
| **Total** | | | 555,531,537 | 685,379,028 | 549,421,699 | 682,399,783 |

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### 57.1 Other contingencies

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Forward exchange contracts:** | 42,081,022 | 39,196,883 | 42,081,022 | 39,196,883 |
| Forward exchange sales | 25,972,942 | 31,322,089 | 25,972,942 | 31,322,089 |
| Forward exchange purchases | 16,108,080 | 7,874,794 | 16,108,080 | 7,874,794 |
| **Currency swaps/currency options :** | 79,641,564 | 178,108,955 | 79,641,564 | 178,108,955 |
| Currency swaps | 79,641,564 | 177,918,097 | 79,641,564 | 177,918,097 |
| Currency options | – | 190,858 | – | 190,858 |
| **Others:** | 110,363,507 | 124,821,871 | 109,988,151 | 124,664,050 |
| Acceptances | 32,901,639 | 73,963,348 | 32,901,639 | 73,959,540 |
| Bills for collection | 74,856,581 | 49,172,892 | 74,481,225 | 49,018,879 |
| Bullion on consignment | 27,429 | 14,882 | 27,429 | 14,882 |
| Other contingencies | 2,577,858 | 1,670,749 | 2,577,858 | 1,670,749 |
| **Subtotal** | 232,086,093 | 342,127,709 | 231,710,737 | 341,969,888 |

### 57.2 Capital commitments

The Group has commitments for acquisition of property, plant and equipment and intangible assets incidental to the ordinary course of business which have been approved by the Board of Directors, the details of which are as follows:

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Commitments in relation to property, plant and equipment** | 1,631,907 | 1,168,032 | 1,475,003 | 1,157,927 |
| Approved and contracted for | 1,486,607 | 965,532 | 1,329,703 | 955,427 |
| Approved but not contracted for | 145,300 | 202,500 | 145,300 | 202,500 |
| **Commitments in relation to intangible assets** | 646,055 | 1,088,877 | 646,055 | 1,088,877 |
| Approved and contracted for | 646,055 | 1,088,877 | 646,055 | 1,088,877 |
| Approved but not contracted for | – | – | – | – |
| **Subtotal** | 2,277,962 | 2,256,909 | 2,121,058 | 2,246,804 |

### 57.3 Movement in provision for impairment during the year

#### 57.3 (a) Group

| | | | Stage 1 | | Stage 2 | | Stage 3 | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| | Note | Page No. | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Balance as at January 01, | | | 2,090,696 | 1,536,100 | 814,948 | 244,482 | 2,459,923 | 339,676 | 5,365,567 | 2,120,258 |
| Charge/(write back) to the Income Statement | 18.1 | 279 | 1,564,590 | 551,897 | 687,280 | 570,466 | (55,814) | 2,120,247 | 2,196,056 | 3,242,610 |
| Exchange rate variance on foreign currency provisions | | | 202,110 | 2,699 | 103,453 | – | 45,276 | – | 350,839 | 2,699 |
| **Balance as at December 31,** | | | 3,857,396 | 2,090,696 | 1,605,681 | 814,948 | 2,449,385 | 2,459,923 | 7,912,462 | 5,365,567 |

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### 57.3 (b) Bank

| | Note | Page No. | Stage 1 2022 Rs. '000 | Stage 1 2021 Rs. '000 | Stage 2 2022 Rs. '000 | Stage 2 2021 Rs. '000 | Stage 3 2022 Rs. '000 | Stage 3 2021 Rs. '000 | Total 2022 Rs. '000 | Total 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at January 01, | | | 2,082,029 | 1,532,691 | 814,948 | 244,482 | 2,459,923 | 339,676 | 5,356,900 | 2,116,849 |
| Charge/(write back) to the Income Statement | 18.2 | 279 | 1,556,600 | 546,862 | 687,280 | 570,466 | (55,814) | 2,120,247 | 2,188,066 | 3,237,575 |
| Exchange rate variance on foreign currency provisions | | | 193,992 | 2,476 | 103,453 | – | 45,276 | – | 342,721 | 2,476 |
| **Balance as at December 31,** | | | 3,832,621 | 2,082,029 | 1,605,681 | 814,948 | 2,449,385 | 2,459,923 | 7,887,687 | 5,356,900 |

### 57.4 Contingent liabilities and commitments of subsidiaries and the associate

#### 57.4 (a) Contingent liabilities and commitments of subsidiaries

Contingent liabilities and commitments of the subsidiary, Commercial Bank of Maldives Private Limited have been included in the Consolidated Financial Statements of the Group while other subsidiaries of the Group do not have any contingencies or commitments as at the reporting date.

#### 57.4 (b) Contingent liabilities and commitments of the associate

The associate of the Group, namely, Equity Investments Lanka (Private) Limited does not have any contingencies as at the reporting date. (As at December 31, 2021 – Nil)

## 58. Net assets value per ordinary share

| *As at December 31,* | GROUP 2022 | GROUP 2021 | BANK 2022 | BANK 2021 |
|---|---|---|---|---|
| **Amounts used as the numerator:** | | | | |
| Total equity attributable to equity holders of the Bank (Rs. '000) | 208,865,166 | 167,474,717 | 203,698,676 | 164,893,979 |
| **Number of ordinary shares used as the denominator:** | | | | |
| Total number of shares | 1,239,778,047 | 1,194,221,299 | 1,239,778,047 | 1,194,221,299 |
| **Net assets value per share (Rs.)** | 168.47 | 140.24 | 164.30 | 138.08 |

## 59. Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. In respect of pending legal claims where the Bank had already made provisions for possible losses in its Financial Statements or has a realisable security to cover the damages are not included below as the Bank does not expect cash outflows from such claims. However, further adjustments are made to the Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

All legal cases against the Bank have been tabled at the Board Integrated Risk Management Committee and the progress has been discussed. Accordingly, set out below are the unresolved legal claims against the Bank as at December 31, 2022 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Bank that has not been listed here on the basis of non-materiality to operations.

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| Plaintiff | Nature of the case | Courts and case No. | Value of the action (Rs. '000) | Description of the case | Present status |
|---|---|---|---|---|---|
| Customer | Recovery of Money | Commercial High Court **52/2020** (Formerly District Court of Colombo DMR 2855/18) | 55,000 | Court action has been initiated by the Plaintiff to claim 10% of the sale price deposited at a property auction held by the Bank, since the balance 90% was not deposited within 30 days of the auction. | Pre-Trial on June 11, 2023 |
| Customer | Recovery of Money | Commercial High Court **CHC/771/19/MR** | 60,000 | The Plaintiff has filed this case seeking an order to prevent the Bank who is the first Defendant from paying and/or disbursing funds on the five Bank Guarantees favouring the Beneficiary who is the second Defendant. | Pre-Trial on March 08, 2023 |
| Customer | Special | Commercial High Court **CHC/193/2020/MR** | 458,895 | Plaintiffs have filed this action seeking an order to prevent the payment of Guarantees issued by the Bank in favour of the Beneficiary who is the first Defendant. | Replication on March 15, 2023. |
| Customer | Special | District Court of Kaduwela **514/SPL** | 463,918 | Plaintiffs have filed this action seeking an order to prevent the payment of Guarantees issued by the Bank in favour of the Beneficiary who is the first Defendant. | The case was laid by until conclusion of Arbitration proceedings. |
| Customer | Recovery of Money | Commercial High Court **CHC/87/2021/MR** | 1,341,350 | Plaintiff has filed the action seeking interim reliefs inter alia preventing the first Defendant, the Beneficiary from claiming on the Bank Guarantees issued by the Bank. | Objections of the first Defendant on March 20, 2023. |
| Customer | Recovery of Money | District Court of Colombo **01423/2020/DMR** | US$ 250,000/- | Action has been instituted to recover a sum of US$ 250,000/- or equivalent in Sri Lankan Rupees together with legal interest thereon as damages due to a Guarantee which the Plaintiff could not claim from Surety. | Trial on April 28, 2023. |
| Customer | Recovery of Money | Commercial High Court **CHC/219/2021/MR** | 463,967 | Plaintiff has filed this action to recover a sum of Rs. 463,967,380.97 due on the guarantees issued by the Bank in favour of the Plaintiff. The applicant of the above guarantees has already obtained an interim injunction in District Court Kaduwela, Case No. 514/SPL against the Bank preventing the payment on the said guarantees. | Trial on June 21, 2023. |
| Customer | Recovery of Money | Commercial High Court **CHC/222/2021/MR** | 442,520 | Plaintiff has filed this action to recover a sum of Rs. 442,519,529.51 due on the guarantees issued by the Bank in favour of the Plaintiff. The applicant of the above guarantees has already obtained an interim injunction in Commercial High Court, Case No. 193/2020/MR against the Bank preventing the payment on the said guarantees. | Trial on April 27, 2023. |

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## 60. Maturity analysis

### Group

(i) Remaining contractual period to maturity as at the date of Statement of Financial Position of the assets employed by the Group is detailed below:

| | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | **Total as at 31.12.2022 Rs. '000** | Total as at 31.12.2021 Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Interest earning assets** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 16,543,712 | – | – | – | – | 16,543,712 | 13,442,801 |
| Balances with Central Banks | 5,574,965 | – | – | – | – | 5,574,965 | 15,024,338 |
| Placements with banks | 74,515,450 | – | – | – | 183,430 | 74,698,880 | 12,498,709 |
| Securities purchased under resale agreements | 1,517,308 | – | – | – | – | 1,517,308 | 3,000,490 |
| Derivative financial assets | – | – | – | – | – | – | – |
| Financial assets recognised through profit or loss – measured at fair value | 22,848,251 | – | – | – | – | 22,848,251 | 21,839,251 |
| Financial assets at amortised cost – loans and advances to other customers | 483,208,998 | 265,577,444 | 232,825,107 | 113,696,607 | 60,184,371 | 1,155,492,527 | 1,029,584,075 |
| Financial assets at amortised cost – debt and other financial instruments | 117,464,547 | 101,534,552 | 297,267,724 | 151,666,317 | 93,717,094 | 761,650,234 | 385,390,598 |
| Financial assets measured at fair value through other comprehensive income | 81,271,374 | 34,391,448 | 1,819,164 | 500,156 | 454,058 | 118,436,200 | 335,503,946 |
| **Total interest earning assets as at 31.12.2022** | 802,944,605 | 401,503,444 | 531,911,995 | 265,863,080 | 154,538,953 | 2,156,762,077 | |
| Total interest earning assets as at 31.12.2021 | 522,922,250 | 367,471,446 | 495,534,621 | 242,322,920 | 188,032,971 | | 1,816,284,208 |
| **Non–interest earning assets** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 134,565,778 | – | – | – | – | 134,565,778 | 55,892,578 |
| Balances with Central Banks | 45,415,943 | 24,368,812 | 1,902,360 | 1,335,040 | – | 73,022,155 | 41,753,127 |
| Placements with banks | 8,540,098 | 12,843,959 | – | – | – | 21,384,057 | – |
| Securities purchased under resale agreements | – | – | – | – | – | – | – |
| Derivative financial assets | 1,725,935 | 187,116 | – | 6,432,040 | – | 8,345,091 | 3,245,120 |
| Financial assets recognised through profit or loss – measured at fair value | 2,024,806 | – | – | – | – | 2,024,806 | 1,596,872 |
| Financial assets at amortised cost – loans and advances to other customers | – | – | – | – | – | – | – |
| Financial assets at amortised cost – debt and other financial instruments | – | – | – | – | – | – | – |
| Financial assets measured at fair value through other comprehensive income | 150,566 | – | – | 65,367 | 124 | 216,057 | 449,856 |
| **Non-financial assets** | | | | | | | |
| Investment in associate | – | – | – | – | 55,302 | 55,302 | 60,428 |
| Property, plant and equipment and right–of–use assets | – | – | – | – | 27,446,607 | 27,446,607 | 24,744,634 |
| Investment properties | – | – | – | – | 80,350 | 80,350 | 72,400 |
| Intangible assets | – | – | – | – | 4,113,200 | 4,113,200 | 2,272,639 |
| Deferred tax assets | – | – | 30,727,213 | – | – | 30,727,213 | 10,036,105 |
| Other assets | 32,293,572 | 1,070,568 | 895,910 | 832,908 | 5,718,253 | 40,811,211 | 27,083,177 |
| **Total non-interest earning assets as at 31.12.2022** | 224,716,698 | 38,470,455 | 33,525,483 | 8,665,355 | 37,413,836 | 342,791,827 | |
| Total non-interest earning assets as at 31.12.2021 | 106,246,853 | 15,967,866 | 12,436,647 | 1,100,921 | 31,454,649 | | 167,206,936 |
| **Total assets – as at 31.12.2022** | 1,027,661,303 | 439,973,899 | 565,437,478 | 274,528,435 | 191,952,789 | 2,499,553,904 | |
| Total assets – as at 31.12.2021 | 629,169,103 | 383,439,312 | 507,971,268 | 243,423,841 | 219,487,620 | | 1,983,491,144 |
| **Percentage – as at 31.12.2022 (*)** | 41.11 | 17.60 | 22.63 | 10.98 | 7.68 | 100.00 | |
| Percentage – as at 31.12.2021(*) | 31.72 | 19.33 | 25.61 | 12.27 | 11.07 | | 100.00 |

*(*) Total assets of each maturity bucket as a percentage of total assets employed by the Group.*

(ii) Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Group is detailed below:

| | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | **Total as at 31.12.2022 Rs. '000** | Total as at 31.12.2021 Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Interest-bearing liabilities** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Due to banks | 18,117,622 | 9,051,282 | 2,329,105 | 9,262,380 | 8,156,575 | 46,916,964 | 67,123,996 |
| Derivative financial liabilities | – | – | – | – | – | – | – |
| Securities sold under repurchase agreements | 71,828,324 | 25,819,323 | 78,788 | – | – | 97,726,435 | 151,424,854 |
| Financial liabilities at amortised cost – due to depositors | 957,568,081 | 705,686,763 | 58,204,321 | 38,054,345 | – | 1,759,513,510 | 1,321,192,489 |
| Financial liabilities at amortised cost – other borrowings | 7,037,987 | 4,581,753 | 703,600 | 1,393,582 | 2,433,434 | 16,150,356 | 32,587,051 |
| Subordinated liabilities | 28,934,545 | 8,587,502 | – | 14,639,440 | 9,239,480 | 61,400,967 | 38,303,466 |
| **Total interest – bearing liabilities as at 31.12.2022** | 1,083,486,559 | 753,726,623 | 61,315,814 | 63,349,747 | 19,829,489 | 1,981,708,232 | |
| Total Interest – bearing liabilities as at 31.12.2021 | 1,014,555,190 | 499,736,627 | 57,787,643 | 22,606,820 | 15,945,576 | | 1,610,631,856 |
| **Non-interest bearing liabilities** | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Due to banks | 18,054,206 | – | – | – | – | 18,054,206 | 6,677,199 |
| Derivative financial liabilities | 2,535,879 | 76,692 | 268,096 | – | – | 2,880,667 | 2,092,198 |
| Securities sold under repurchase agreements | – | – | – | – | – | – | – |
| Financial liabilities at amortised cost – due to depositors | 218,230,151 | – | – | – | – | 218,230,151 | 151,447,967 |
| Financial liabilities at amortised cost – other borrowings | – | – | – | – | – | – | – |
| Subordinated liabilities | – | – | – | – | – | – | – |
| **Non-financial liabilities** | | | | | | | |
| Current tax liabilities | 6,229,018 | 18,687,056 | – | – | – | 24,916,074 | 9,486,772 |
| Deferred tax liabilities | – | – | 437,123 | – | – | 437,123 | 349,106 |
| Other liabilities | 21,145,555 | 10,263,179 | 3,804,006 | 2,820,765 | 2,321,372 | 40,354,877 | 33,253,518 |
| **Equity** | | | | | | | |
| Stated capital | – | – | – | – | 58,149,621 | 58,149,621 | 54,566,957 |
| Statutory reserves | – | – | – | – | 12,079,670 | 12,079,670 | 10,590,338 |
| Retained earnings | – | – | – | – | 6,790,304 | 6,790,304 | 9,890,762 |
| Other reserves | – | – | – | – | 131,845,571 | 131,845,571 | 92,426,660 |
| Non-controlling Interest | – | – | – | – | 4,107,408 | 4,107,408 | 2,077,811 |
| **Total non-interest-bearing liabilities as at 31.12.2022** | 266,194,809 | 29,026,927 | 4,509,225 | 2,820,765 | 215,293,946 | 517,845,672 | |
| Total non-interest-bearing liabilities as at 31.12.2021 | 176,107,338 | 18,748,390 | 3,519,617 | 1,884,869 | 172,599,074 | | 372,859,288 |
| **Total liabilities and equity – as at 31.12.2022** | 1,349,681,368 | 782,753,550 | 65,825,039 | 66,170,512 | 235,123,435 | 2,499,553,904 | |
| Total liabilities and equity – as at 31.12.2021 | 1,190,662,528 | 518,485,017 | 61,307,260 | 24,491,689 | 188,544,650 | | 1,983,491,144 |
| **Percentage – as at 31.12.2022 (*)** | 54.00 | 31.32 | 2.63 | 2.65 | 9.40 | 100.00 | |
| Percentage – as at 31.12.2021 (*) | 60.03 | 26.14 | 3.09 | 1.23 | 9.51 | | 100.00 |

*(*) Total liabilities and shareholders' funds of each maturity bucket as a percentage (%) of total liabilities and shareholders' funds employed by the Group.*

## 61. Operating segments

**ACCOUNTING POLICY**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Corporate Management Team headed by the Managing Director/Chief Executive Officer (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Group has five strategic divisions (operating segments) which are reportable segments, namely:

- Personal Banking
- Corporate Banking
- International Operations
- Dealing/Treasury
- NBFI, Real Estate & Services

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Consolidated Financial Statements. Income taxes are managed on a group basis and are not allocated to operating segments.

The following table presents the income, profit and asset and liability information on the group's strategic business divisions for the year ended December 31, 2022 and comparative figures for the year ended December 31, 2021.

| *For the year ended December 31,* | Personal banking | | Corporate banking | |
|---|---|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| Net interest income | 36,987,980 | 32,270,665 | 20,629,260 | 8,623,181 |
| Foreign exchange profit | 384,657 | 223,310 | 121,407 | 133,161 |
| Net fee and commission income | 9,213,649 | 6,469,190 | 8,016,550 | 3,448,082 |
| Other income | 729,478 | 654,622 | (28,599) | 11,077 |
| **Total operating income** | 47,315,764 | 39,617,787 | 28,738,618 | 12,215,501 |
| Impairment charges and other losses | (8,602,197) | (9,208,638) | (24,928,376) | (9,287,430) |
| **Net operating income** | 38,713,567 | 30,409,149 | 3,810,242 | 2,928,071 |
| **Segment result** | 16,427,308 | 12,369,922 | 1,097,633 | 604,247 |
| Profit from operations | | | | |
| Share of profit of associate (net of tax) | | | | |
| Income tax expense | | | | |
| Non-controlling interest | | | | |
| **Net profit for the year, attributable to equity holders of the parent** | | | | |

| *As at December 31,* | Personal banking | | Corporate banking | |
|---|---|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Other information** | | | | |
| Segment assets | 620,049,967 | 589,421,251 | 498,406,103 | 426,521,897 |
| Investment in associate | - | - | - | - |
| **Total assets** | 620,049,967 | 589,421,251 | 498,406,103 | 426,521,897 |
| Segment liabilities | 1,379,454,937 | 1,124,769,169 | 423,811,188 | 302,425,307 |
| **Total liabilities** | 1,379,454,937 | 1,124,769,169 | 423,811,188 | 302,425,307 |

| *For the year ended December 31,* | Personal banking | | Corporate banking | |
|---|---|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| **Information on cash flows** | | | | |
| Cash flows from operating activities | | | | |
| Cash flows from investing activities | | | | |
| Cash flows from financing activities | | | | |
| Capital expenditure – | | | | |
| Property, plant and equipment | | | | |
| Investment properties | | | | |
| Intangible assets | | | | |
| **Net cash flow generated during the year** | | | | |

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| | International operations | | Dealing/treasury | | NBFI, Real Estate & Services | | Unallocated/eliminations | | Total/consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| | 14,050,779 | 6,913,097 | 3,214,015 | 13,922,653 | 679,395 | 766,718 | 9,103,782 | 3,920,018 | 84,665,211 | 66,416,332 |
| | 8,756,885 | 1,959,462 | (7,822,874) | 5,696,483 | 1,736 | 106 | 29,782,201 | 2,624,242 | 31,224,012 | 10,636,764 |
| | 2,386,823 | 1,611,173 | 8,343 | 18,217 | 180,331 | 264,667 | 363,405 | 430,865 | 20,169,101 | 12,242,194 |
| | 144,679 | 279,152 | (1,343,029) | 3,168,281 | 1,368,511 | 1,068,770 | (292,717) | (878,869) | 578,323 | 4,303,033 |
| | 25,339,166 | 10,762,884 | (5,943,545) | 22,805,634 | 2,229,973 | 2,100,261 | 38,956,671 | 6,096,256 | 136,636,647 | 93,598,323 |
| | (1,091,208) | (476,662) | (37,053,061) | (5,780,798) | (249,418) | (386,483) | – | 85 | (71,924,260) | (25,139,926) |
| | 24,247,958 | 10,286,222 | (42,996,606) | 17,024,836 | 1,980,555 | 1,713,778 | 38,956,671 | 6,096,341 | 64,712,387 | 68,458,397 |
| | 17,424,026 | 6,411,835 | (44,857,143) | 14,390,893 | 541,888 | 636,451 | 33,875,053 | (1,457,920) | 24,508,765 | 32,955,428 |
| | | | | | | | | | 24,508,765 | 32,955,428 |
| | | | | | | | | | (3,727) | 1,896 |
| | | | | | | | | | (105,566) | (8,667,036) |
| | | | | | | | | | (587,558) | (227,819) |
| | | | | | | | | | 23,811,914 | 24,062,469 |

| | International operations | | Dealing/treasury | | NBFI, Real Estate & Services | | Unallocated/eliminations | | Total/consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| | 422,835,358 | 254,416,091 | 945,053,191 | 770,572,291 | 14,566,106 | 13,385,658 | (1,412,123) | (70,886,472) | 2,499,498,602 | 1,983,430,716 |
| | - | - | - | - | - | - | 55,302 | 60,428 | 55,302 | 60,428 |
| | 422,835,358 | 254,416,091 | 945,053,191 | 770,572,291 | 14,566,106 | 13,385,658 | (1,356,821) | (70,826,044) | 2,499,553,904 | 1,983,491,144 |
| | 348,705,590 | 214,486,976 | 157,098,344 | 216,394,172 | 8,655,671 | 7,711,555 | (31,144,400) | (51,848,563) | 2,286,581,330 | 1,813,938,616 |
| | 348,705,590 | 214,486,976 | 157,098,344 | 216,394,172 | 8,655,671 | 7,711,555 | (31,144,400) | (51,848,563) | 2,286,581,330 | 1,813,938,616 |

| | International operations | | Dealing/treasury | | NBFI, Real Estate & Services | | Unallocated/eliminations | | Total/consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 | **2022 Rs. '000** | 2021 Rs. '000 |
| | | | | | | | | | 89,272,189 | 35,831,577 |
| | | | | | | | | | (247,631) | (5,122,200) |
| | | | | | | | | | (1,696,633) | (10,829,366) |
| | | | | | | | | | (3,322,483) | (984,836) |
| | | | | | | | | | – | – |
| | | | | | | | | | (2,224,915) | (810,454) |
| | | | | | | | | | 81,780,527 | 18,084,721 |

## 62. Related party disclosures

ACCOUNTING POLICY

The Bank carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 "Related Party Disclosures", other than, transactions that the Key Management Personnel (KMP) have availed under schemes uniformly applicable to all staff at concessionary rates.

### 62.1 Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

### 62.2 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 on "Related party disclosures", KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly.

#### KMP of the Bank

The Board of Directors of the Bank (including Executive and Non-Executive Directors) has been identified as KMP of the Bank.

#### KMP of the Group

As the Bank is the ultimate parent of the subsidiaries listed out in Note 1.3 on page 249, the Board of Directors of the Bank has the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Bank is also KMP of the Group. Therefore, officers who are only Directors of the subsidiaries and not of the Bank have been classified as KMP only for that respective subsidiary.

#### 62.2.1 Compensation to KMP

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Short-term employment benefits | – | 220,354 | – | 215,786 |
| Post-employment benefits | – | 9,875 | – | 9,875 |
| **Total** | – | 230,229 | – | 225,661 |

#### 62.2.2 Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)

CFM of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Bank. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner. CFM too have been identified as Related Parties of the Group/Bank.

#### 62.2.2.1 Statement of Financial Position – Bank

| | Year-end balance | | Annual average balance | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Assets** | | | | |
| Financial assets at amortised cost – loans and advances | – | 16,410 | – | 15,202 |
| **Total** | – | 16,410 | – | 15,202 |
| **Liabilities** | | | | |
| Securities sold under repurchase agreements | – | 1,275 | – | 164 |
| Financial liabilities at amortised cost – due to depositors | – | 219,516 | – | 248,634 |
| Subordinated liabilities | – | 17,000 | – | 17,000 |
| **Total** | – | 237,791 | – | 265,798 |

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### 62.2.2.2 Commitments and contingencies – Bank

| | Year-end balance | | Annual average balance | |
|---|---|---|---|---|
| | **2022** **Rs. '000** | 2021 Rs. '000 | **2022** **Rs. '000** | 2021 Rs. '000 |
| Undrawn facilities | – | 19,170 | – | 15,602 |
| **Total** | – | 19,170 | – | 15,602 |

### 62.2.2.3 Direct and indirect accommodation – Bank

| | Year-end balance | |
|---|---|---|
| | **2022** | 2021 |
| **Direct and indirect accommodation as a percentage of the Bank's regulatory capital** | – | 0.02 |

No impairment losses have been recorded against balances outstanding with KMP and CFM.

### 62.2.2.4 Income Statement – Bank

| *For the year ended December 31,* | Note | Page No. | **2022** **Rs. '000** | 2021 Rs. '000 |
|---|---|---|---|---|
| Interest income | | | – | 608 |
| Interest expense | | | – | 12,426 |
| Compensation to KMP | 62.2.1 | 352 | – | 225,661 |

### 62.2.2.5 Share-based transactions of KMP and CFM

| | Year-end balance | |
|---|---|---|
| | **2022** | 2021 |
| Number of ordinary shares held by KMP and CFM | – | 953,183 |
| Dividends paid (in Rs. '000) | – | 6,056 |

| | ESOP 2019 | |
|---|---|---|
| *As at the year end* | **2022** | 2021 |
| **Number of cumulative exercisable options under the Employee Share Option Plan (ESOP)** | | |
| Tranche I | – | 89,187 |
| Tranche II | – | 38,323 |
| Tranche III | – | 206,866 |

### 62.2.3 Transactions, arrangements and agreements involving entities which are controlled, and/or jointly controlled by the KMP or their CFM

No significant transactions during the year.

### 62.3 Transactions with Group entities

The Group entities include the subsidiaries and the associate of the Bank.

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### 62.3.1 Transactions with subsidiaries

#### 62.3.1.1 Statement of Financial Position

| | Year-end balance | | Annual average balance | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Assets** | | | | |
| Financial assets at amortised cost – loans and advances | – | 1,718,761 | – | 1,008,569 |
| Other assets | – | 101,001 | – | 104,770 |
| **Total** | – | 1,819,762 | – | 1,113,339 |
| **Liabilities** | | | | |
| Securities sold under repurchase agreements | – | 514,167 | – | 328,287 |
| Financial liabilities at amortised cost – due to depositors | – | 867,900 | – | 1,008,768 |
| Other liabilities | – | 74,978 | – | 68,854 |
| **Total** | – | 1,457,046 | – | 1,405,909 |

#### 62.3.1.2 Commitments and contingencies

| | Year-end balance | | Annual average balance | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Undrawn facilities | – | 100,542 | – | 106,842 |
| **Total** | – | 100,542 | – | 106,842 |

#### 62.3.1.3 Direct and indirect accommodation

| | Year-end balance | |
|---|---|---|
| | **2022** | 2021 |
| **Direct and indirect accommodation as a percentage of the Bank's Regulatory Capital** | – | 1.11 |

#### 62.3.1.4 Income Statement

| *For the year ended December 31,* | **2022** | 2021 |
|---|---|---|
| | **Rs. '000** | Rs. '000 |
| Interest income | – | 32,091 |
| Interest expense | – | 37,484 |
| Other income | – | 149,502 |
| Other expenses | – | 958,131 |
| Dividend income | – | 101,800 |

#### 62.3.1.5 Other transactions

| *For the year ended December 31,* | **2022** | 2021 |
|---|---|---|
| Payments made to CBC Tech Solutions Ltd. in relation to purchase of computer hardware and software (Rs. '000) | – | 68,083 |
| Number of ordinary shares (non-voting) of the Bank held by the subsidiaries as at the year-end | – | – |
| Dividend paid (Rs. '000) | – | 5 |

### 62.3.1.6 Inter-company transactions carried out by other entities in the Group

Details of transactions of CBC Finance Limited with Commercial Development Company PLC (CDC) and CBC Tech Solutions Limited.

| Subsidiary Company | Nature of the transaction | Year-end balance 2022 Rs. '000 | Year-end balance 2021 Rs. '000 | Annual average balance 2022 Rs. '000 | Annual average balance 2021 Rs. '000 |
|---|---|---|---|---|---|
| CBC Finance Limited | **Transactions with CDC PLC** | | | | |
| | As at December 31, | | | | |
| | Term deposits | – | 467,000 | – | 433,500 |
| | For the year ended December 31, | | | | |
| | Interest expense | – | 28,749 | – | – |
| | **Transactions with CBC Tech Solutions Limited** | | | | |
| | As at December 31, | | | | |
| | Term deposits | – | 125,250 | – | 109,450 |
| | For the year ended December 31, | | | | |
| | Interest expense | – | 7,070 | – | – |

### 62.3.2 Transactions with the associate

#### 62.3.2.1 Statement of Financial Position

| | Year-end balance 2022 Rs. '000 | Year-end balance 2021 Rs. '000 | Annual average balance 2022 Rs. '000 | Annual average balance 2021 Rs. '000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at amortised cost – loans and advances | – | – | – | – |
| **Total** | – | – | – | – |
| **Liabilities** | | | | |
| Financial liabilities at amortised cost – due to depositors | – | 10,004 | – | 3,221 |
| **Total** | – | 10,004 | – | 3,221 |

#### 62.3.2.2 Commitments and contingencies

| | Year-end balance 2022 Rs. '000 | Year-end balance 2021 Rs. '000 | Annual average balance 2022 Rs. '000 | Annual average balance 2021 Rs. '000 |
|---|---|---|---|---|
| Undrawn facilities | – | – | – | – |
| **Total** | – | – | – | – |

#### 62.3.2.3 Income Statement

| *For the year ended December 31,* | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|
| Interest income | – | – |
| Interest expense | – | 53 |
| Other income | – | – |
| Other expenses | – | – |

#### 62.3.2.4 Other transactions

| | 2022 | 2021 |
|---|---|---|
| Number of ordinary shares (voting) of the Bank held by the associate as at the year-end | – | 13,000 |
| Dividend paid (Rs. '000) | – | – |

### 62.4 Transactions with other related entities

Other related entities include significant investors (either entities or individuals) that have control, joint control or significant influence, post-employment benefit plans for the Bank's employees.

#### 62.4.1 Transactions with the post-employment benefit plans for the employees of the Bank

##### 62.4.1.1 Statement of Financial Position

| | Year-end balance | | Annual average balance | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Assets** | | | | |
| Financial assets at amortised cost – loans and advances | – | – | – | – |
| **Total** | – | – | – | – |
| **Liabilities** | | | | |
| Securities sold under repurchase agreements | – | 1,672,505 | – | 261,531 |
| Financial liabilities at amortised cost – due to depositors | – | 1,636,664 | – | 6,607,977 |
| **Total** | – | 3,309,169 | – | 6,869,508 |

##### 62.4.1.2 Income Statement

| *For the year ended December 31,* | **2022** | 2021 |
|---|---|---|
| | **Rs. '000** | Rs. '000 |
| Interest income | – | – |
| Interest expense | – | 476,883 |
| Contribution made/taxes paid by the Bank | – | 1,632,532 |

### 62.5 Recurrent related party transactions

There are no recurrent related party transactions which in aggregate exceeds more than 10% of the gross revenue of the Bank.

### 62.6 Non-recurrent related party transactions

There are no non-recurrent related party transactions which exceeds 10% of equity or 5% of total assets, whichever is lower.

## 63. Non-cash items included in profit before tax

| | GROUP | | BANK | |
|---|---|---|---|---|
| *For the year ended December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| Depreciation of property, plant and equipment and right-of-use assets | 3,131,250 | 2,903,408 | 3,142,819 | 2,909,666 |
| Amortisation of intangible assets | 467,121 | 316,658 | 420,657 | 268,962 |
| Impairment charges and other losses | 71,774,329 | 25,138,265 | 71,311,691 | 24,690,682 |
| Fair value (gains)/losses on investment properties | (7,950) | (5,284) | – | – |
| Accretion of interest on lease liability | 497,634 | 451,619 | 526,859 | 490,418 |
| Contributions to defined benefit plans – Unfunded schemes | 51,347 | 81,909 | 25,863 | 71,916 |
| Provision made o/a of leave encashment | 410,656 | 74,135 | 410,656 | 74,135 |
| Equity-settled Share-based payments | – | 41,972 | – | 41,972 |
| Amortised interest payable o/a subordinated liabilities | 12,210 | 12,210 | 12,210 | 12,210 |
| Mark to market (gains)/losses on other financial instruments at fair value through profit or loss | 972,490 | 477,532 | 972,490 | 477,532 |
| Mark to market (gains)/losses on derivative financial instruments | 454,005 | 55,180 | 454,005 | 55,180 |

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| For the year ended December 31, | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Effect of exchange rate variances on property, plant and equipment and right-of-use assets | (1,113,419) | (103,886) | (929,129) | (91,554) |
| Effect of exchange rate variances on intangible assets | (82,767) | (7,676) | (40,889) | (4,741) |
| Effect of exchange rate variances on defined benefit plans | – | 29,179 | – | 29,179 |
| Effect of exchange rate variances on subordinated liabilities | 12,525,000 | 975,000 | 12,525,000 | 975,000 |
| Net effect of exchange rate variances on net deferred tax assets | (155,274) | (23,344) | (110,682) | (23,006) |
| Net effect of exchange rate variances on income tax liability | 1,174,261 | 77,850 | 1,037,232 | 74,695 |
| Net effect of exchange rate variance on lease liability | 1,188,177 | 118,009 | 988,351 | 100,056 |
| Grossed up withholding tax credits | – | (139,143) | – | (139,110) |
| **Total** | 91,299,070 | 30,473,593 | 90,747,133 | 30,013,192 |

## 64. Change in operating assets

| For the year ended December 31, | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Net (increase)/decrease in derivative financial instruments | (5,047,751) | (608,403) | (5,047,751) | (608,403) |
| Net (increase)/decrease in balances with central banks | (21,819,655) | 58,581,267 | (13,595,591) | 58,073,197 |
| Net (increase)/decrease in placements with banks | (83,557,657) | 3,889,011 | (84,339,655) | 4,351,207 |
| Net (increase)/decrease in securities purchased under resale agreements | 1,483,182 | (3,000,490) | 1,483,182 | (3,000,490) |
| Net (increase)/decrease in other financial assets recognised through profit or loss | (2,409,424) | 11,275,816 | (2,409,424) | 11,275,816 |
| Net (increase)/decrease in loans and receivables to customers | (148,205,171) | (134,702,172) | (137,785,784) | (132,326,489) |
| Net (increase)/decrease in financial assets measured at fair value through other comprehensive income | 240,586,572 | (77,023,218) | 241,700,619 | (76,789,223) |
| Net (increase)/decrease in financial assets at amortised cost – Debt and other financial instruments | (430,647,139) | (81,785,007) | (410,733,875) | (75,127,002) |
| Net (increase)/decrease in other assets | (13,728,034) | (6,888,024) | (13,674,693) | (7,405,326) |
| **Total** | (463,345,077) | (230,261,220) | (424,402,972) | (221,556,713) |

## 65. Change in operating liabilities

| For the year ended December 31, | GROUP 2022 Rs. '000 | GROUP 2021 Rs. '000 | BANK 2022 Rs. '000 | BANK 2021 Rs. '000 |
|---|---|---|---|---|
| Net increase/(decrease) in due to banks | (8,830,025) | (14,446,861) | (8,647,359) | (13,673,886) |
| Net increase/(decrease) in derivative financial instruments | 408,599 | 603,997 | 408,599 | 603,997 |
| Net increase/(decrease) in securities sold under repurchase agreements | (53,698,419) | 60,013,332 | (54,185,407) | 60,474,230 |
| Net increase/(decrease) in deposits from banks, customers and debt securities issued | 505,103,205 | 186,024,057 | 471,266,041 | 177,127,535 |
| Net increase/(decrease) in other borrowings | (16,436,695) | (21,968,882) | (16,436,695) | (21,968,882) |
| Net increase/(decrease) in other liabilities | 4,232,171 | (2,155,443) | 4,064,912 | (2,123,296) |
| Net increase/(decrease) in due to subsidiaries | – | – | 66,785 | (48,316) |
| **Total** | 430,778,836 | 208,070,200 | 396,536,876 | 200,391,382 |

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## 66. Financial risk review

This note presents information about the Bank's exposure to financial risks and the Bank's management of capital.



### Introduction

As a financial intermediary, the Bank is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the Bank's activities. Managing these risks is critical for the sustainability of the Bank which plays a pivotal role in all activities of the Bank. Risk management function strives to identify potential risks in advance, analyse them and take precautionary steps to mitigate the impact of risk whilst optimising through risk adjusted returns within the risk appetite of the Bank.

### Risk management framework

The overall responsibility and oversight of the risk management framework of the Bank is vested with the Board of Directors (BOD). The Board Integrated Risk Management Committee (BIRMC), a mandatory subcommittee set up by the Board, in turn is entrusted with the development of the Bank's Risk Management Policies and monitoring of due compliance of same through the Executive Integrated Risk Management Committee (EIRMC).

The Risk Management Policies spell out the risk appetite of the Bank and has incorporated risk exposure limits and controls to monitor and adherence to the limits in force. These Policies and Systems are reviewed regularly to reflect the changing market dynamics in light of the products and services offered.

The Bank strives to inculcate a risk management culture through continuous training, work ethics and standards.

Refer Note 3.2 on page 255 for more information on the risk management framework of the Bank.

### Integrated Risk Management Department (IRMD)

Business Units are the risk owners and have the primary responsibility for managing risk stemming from these activities. The IRMD acts as the second line of defence in managing the risk. The IRMD through Chief Risk Officer reports to the BIRMC thus ensuring its independence.

### Risk measurement and reporting

The Bank uses robust risk measurement techniques in line with industry best practices. The Bank also carries out stress testing on regular basis which is a key aspect of the Internal Capital Adequacy Assessment Process (ICAAP). The risk management framework of the Bank provides an insight on the impact of extreme, but plausible scenarios on the Bank's risk profile. The results of the stress testing are reported to the EIRMC and then to the BIRMC on a periodic basis.

The Bank establishes policies, and sets limits and thresholds within the risk appetite of the Bank. These limits reflect the business strategy and market environment which the bank operates as well as the level of risk that the Bank is willing to accept (risk appetite). The monitoring and control mechanism therefore, is based on risk appetite of the Bank.

## 66.1 Credit risk

The financial loss resulting from a borrower or counterparty to a financial instrument failing or delaying to meet its contractual obligations is referred to as credit risk. It arises principally from the loans and advances to banks and other customers, investments in debt securities and other financial instruments. In addition to the credit risk from direct funding exposure (i.e. on balance sheet exposure), indirect liabilities such as Letters of Credit, Guarantees etc. also would expose the Bank to credit risk.

The Bank ensures stringent credit risk management practices to manage overall elements of credit risk exposures (such as individual obligor default risk, country and sector concentration risks etc.).

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## 66.1.1 Credit quality analysis

### 66.1.1 (a) Maximum exposure to credit risk by risk rating

The following tables set out information about the credit quality of financial assets measured at amortised cost, debt instruments measured at FVOCI and contingent liabilities and commitments.

| *As at December 31, 2022* | Note | Page No. | Carrying amount Rs. '000 | Not subject to ECL Rs. '000 | Subject to: 12-month ECL (Stage 1) Rs. '000 | Subject to: Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Subject to: Lifetime ECL – credit impaired (Stage 3) Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | | | |
| Risk free Investments | | | 47,104,381 | 47,104,381 | – | – | – |
| Rating 0-4: Investment grade | | | 102,265,027 | – | 102,265,027 | – | – |
| Rating 5-6: Moderate risk | | | 37,893 | – | 37,893 | – | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 149,407,301 | 47,104,381 | 102,302,920 | – | – |
| Less: Provision for impairment | | | 13,690 | – | 13,690 | – | – |
| **Net carrying amount** | 28 | 290 | 149,393,611 | 47,104,381 | 102,289,230 | – | – |
| **Placements with Central Bank and other Banks** | | | | | | | |
| Risk free investments (Excluding Statutory Reserve) | | | – | – | – | – | – |
| Rating 0-4: Investment grade | | | 95,933,756 | – | 95,933,756 | – | – |
| Rating 5-6: Moderate risk | | | – | – | – | – | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 95,933,756 | – | 95,933,756 | – | – |
| Less: Provision for impairment | | | 34,111 | – | 34,111 | – | – |
| **Net carrying amount** | 30 | 291 | 95,899,645 | – | 95,899,645 | – | – |
| **Financial assets at amortised cost – Loans and advances to other customers** | | | | | | | |
| Government Securities (Risk free investments) | | | – | – | – | – | – |
| Rating 0-4: Investment grade (*) | | | 841,623,725 | – | 736,637,671 | 92,289,248 | 12,696,806 |
| Rating 5-6: Moderate risk | | | 281,028,100 | – | 190,778,400 | 66,742,012 | 23,507,688 |
| Rating 7-8: High risk | | | 43,026,390 | – | 4,057,941 | 14,346,136 | 24,622,313 |
| Rating 9: Extreme risk | | | 53,989,028 | – | 35,675 | 41,305 | 53,912,048 |
| **Gross carrying amount** | | | 1,219,667,243 | – | 931,509,687 | 173,418,701 | 114,738,855 |
| Less: Provision for impairment | | | 89,224,664 | – | 14,598,587 | 28,248,676 | 46,377,401 |
| **Net carrying amount** | 33 | 296 | 1,130,442,579 | – | 916,911,100 | 145,170,025 | 68,361,454 |
| **Financial assets at amortised cost – Debt and other financial instruments** | | | | | | | |
| Government Securities (Risk free investments) | | | 564,355,883 | 564,355,883 | – | – | – |
| Rating 0-4: Investment grade | | | 7,642,694 | – | 7,642,694 | – | – |
| Rating 5-6: Moderate risk | | | 224,468,893 | – | – | 224,468,893 | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | 152,870 | – | – | – | 152,870 |
| **Gross carrying amount** | | | 796,620,340 | 564,355,883 | 7,642,694 | 224,468,893 | 152,870 |
| Less: Provision for impairment | | | 70,685,041 | – | 1,407 | 70,530,764 | 152,870 |
| **Net carrying amount** | 34 | 300 | 725,935,299 | 564,355,883 | 7,641,287 | 153,938,129 | – |

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| *As at December 31, 2022* | Note | Page No. | Carrying amount Rs. '000 | Not subject to ECL Rs. '000 | Subject to 12-month ECL (Stage 1) Rs. '000 | Subject to Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Subject to Lifetime ECL – credit impaired (Stage 3) Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Financial assets measured at fair value through other comprehensive income** | | | | | | | |
| Government securities (Risk free investments) | | | 116,840,307 | 116,840,307 | – | – | – |
| Rating 0-4: Investment grade | | | 215,933 | 215,933 | – | | |
| Rating 5-6: Moderate risk | | | – | – | – | – | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 117,056,240 | 117,056,240 | – | – | – |
| Less: Provision for impairment | | | – | – | – | – | – |
| **Net carrying amount** | 35 | 302 | 117,056,240 | 117,056,240 | – | – | – |
| **Off-balance sheet (**)** | | | | | | | |
| **Contingent liabilities and commitments** | | | | | | | |
| **(i) Lending commitments** | | | | | | | |
| Grade 0-6: Investment grade to moderate risk | | | 132,065,118 | – | 127,279,327 | 4,725,389 | 60,402 |
| Grade 7-9: High risk to extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 132,065,118 | – | 127,279,327 | 4,725,389 | 60,402 |
| (ii) **Contingencies** | | | | | | | |
| Grade 0-6: Investment grade to moderate risk | | | 415,235,523 | 198,809,096 | 212,869,228 | 1,215,048 | 2,342,151 |
| Grade 7-9: High risk to extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 415,235,523 | 198,809,096 | 212,869,228 | 1,215,048 | 2,342,151 |
| **Total contingent liabilities and commitments** | 57 | 344 | 547,300,641 | 198,809,096 | 340,148,555 | 5,940,437 | 2,402,553 |
| **Provision for impairment** | 57.3 (b) | 346 | 7,887,687 | – | 3,832,621 | 1,605,681 | 2,449,385 |

| *As at December 31, 2021* | Note | Page No. | Carrying amount Rs. '000 | Not subject to ECL Rs. '000 | Subject to 12-month ECL (Stage 1) Rs. '000 | Subject to Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Subject to Lifetime ECL – credit impaired (Stage 3) Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | | | |
| Risk free investments | | | 30,276,356 | 30,276,356 | – | – | – |
| Rating 0-4: Investment grade | | | 35,373,724 | – | 35,373,724 | – | – |
| Rating 5-6: Moderate risk | | | 2,435,551 | – | 2,435,551 | – | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 68,085,631 | 30,276,356 | 37,809,275 | – | – |
| Less: Provision for impairment | | | 7,555 | – | 7,555 | – | – |
| **Net carrying amount** | 28 | 290 | 68,078,076 | 30,276,356 | 37,801,720 | – | – |

| *As at December 31, 2021* | Note | Page No. | Carrying amount Rs. '000 | Not subject to ECL Rs. '000 | Subject to 12-month ECL (Stage 1) Rs. '000 | Subject to Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Subject to Lifetime ECL – credit impaired (Stage 3) Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Placements with Central Bank and other Banks** | | | | | | | |
| Risk free investments (Excluding Statutory Reserve) | | | 13,105,398 | 13,105,398 | – | – | – |
| Rating 0-4: Investment grade | | | 11,590,882 | – | 11,590,882 | – | – |
| Rating 5-6: Moderate risk | | | – | – | – | – | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 24,696,280 | 13,105,398 | 11,590,882 | – | – |
| Less: Provision for impairment | | | 5,930 | – | 5,930 | – | – |
| **Net carrying amount** | 29 & 30 | 291 | 24,690,350 | 13,105,398 | 11,584,952 | – | – |
| **Financial assets at amortised cost – Loans and advances to other customers** | | | | | | | |
| Government securities (Risk free investments) | | | – | – | – | – | – |
| Rating 0-4: Investment grade (*) | | | 781,407,131 | – | 693,942,543 | 80,421,587 | 7,043,001 |
| Rating 5-6: Moderate risk | | | 223,404,861 | – | 148,341,718 | 58,362,563 | 16,700,580 |
| Rating 7-8: High risk | | | 25,814,803 | – | 3,307,734 | 15,028,167 | 7,478,902 |
| Rating 9: Extreme risk | | | 48,058,333 | – | 177,332 | 27,848 | 47,853,153 |
| **Gross carrying amount** | | | 1,078,685,128 | – | 845,769,327 | 153,840,165 | 79,075,636 |
| Less: Provision for impairment | | | 64,066,548 | – | 10,027,938 | 18,973,409 | 35,065,201 |
| **Net carrying amount** | 33 | 296 | 1,014,618,580 | – | 835,741,389 | 134,866,756 | 44,010,435 |
| **Financial assets at amortised cost – Debt and other financial instruments** | | | | | | | |
| Government securities (Risk free investments) | | | 284,725,818 | 284,725,818 | – | – | – |
| Rating 0-4: Investment grade | | | 90,205,361 | – | 90,205,361 | – | – |
| Rating 5-6: Moderate risk | | | 1,610 | – | 1,610 | – | – |
| Rating 7-8: High risk | | | 152,870 | – | – | – | 152,870 |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 375,085,659 | 284,725,818 | 90,206,971 | – | 152,870 |
| Less: Provision for impairment | | | 5,667,770 | – | 5,514,900 | – | 152,870 |
| **Net carrying amount** | 34 | 300 | 369,417,889 | 284,725,818 | 84,692,071 | – | – |
| **Financial assets measured at fair value through other comprehensive income** | | | | | | | |
| Government securities (Risk free investments) | | | 265,632,081 | 265,632,081 | – | – | – |
| Rating 0-4: Investment grade | | | 74,391,174 | – | 74,391,174 | | |
| Rating 5-6: Moderate risk | | | 449,732 | 449,732 | – | – | – |
| Rating 7-8: High risk | | | – | – | – | – | – |
| Rating 9: Extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 340,472,987 | 266,081,813 | 74,391,174 | – | – |
| Less: Provision for impairment | | | 5,009,649 | – | 5,009,649 | – | – |
| **Net carrying amount** | 35 | 302 | 335,463,338 | 266,081,813 | 69,381,525 | – | – |

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| *As at December 31, 2021* | Note | Page No. | Carrying amount Rs. '000 | Not subject to ECL Rs. '000 | Subject to 12-month ECL (Stage 1) Rs. '000 | Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Lifetime ECL – credit impaired (Stage 3) Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Off-balance sheet (**)** | | | | | | | |
| **Contingent liabilities and commitments** | | | | | | | |
| **(i) Lending commitments** | | | | | | | |
| Grade 0-6: Investment grade to moderate risk | | | 143,400,310 | – | 139,418,405 | 3,616,084 | 365,821 |
| Grade 7-9: High risk to extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 143,400,310 | – | 139,418,405 | 3,616,084 | 365,821 |
| **(ii) Contingencies** | | | | | | | |
| Grade 0-6: Investment grade to moderate risk | | | 536,752,669 | 268,010,348 | 263,917,835 | 1,840,922 | 2,983,564 |
| Grade 7-9: High risk to extreme risk | | | – | – | – | – | – |
| **Gross carrying amount** | | | 536,752,669 | 268,010,348 | 263,917,835 | 1,840,922 | 2,983,564 |
| **Total contingent liabilities and commitments** | 57 | 344 | 680,152,979 | 268,010,348 | 403,336,240 | 5,457,006 | 3,349,385 |
| **Provision for impairment** | 57.3 (b) | 346 | 5,356,900 | – | 2,082,029 | 814,948 | 2,459,923 |

*(*) Investment grade also include Cash and Gold.*

*(**) Amounts reported above does not include capital commitments by the Bank disclosed in the Note 57 on "Contingent Liabilities and Commitments" on pages 344 to 346.*

Financial assets at amortised cost – Loans and advances to other customers and contingent liabilities and commitments categorised based on Bank's internal risk rating and other financial assets are categorised based on external credit rating of respective counterparties.

### 66.1.1 (b) Credit exposure movement – ECL stage-wise

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts by class of financial instrument.

| | Carrying amount Rs. '000 | Not subject to ECL Rs. '000 | Subject to 12-month ECL (Stage 1) Rs. '000 | Lifetime ECL not credit impaired (Stage 2) Rs. '000 | Lifetime ECL credit impaired (Stage 3) Rs. '000 |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | |
| Gross carrying amount as at January 01, 2022 | 68,085,631 | 30,276,356 | 37,809,275 | – | – |
| Transfer to Stage 1 | – | – | – | – | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 71,048,721 | 14,496,264 | 56,552,457 | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (13,450,415) | – | (13,450,415) | – | – |
| Foreign exchange adjustments | 23,723,364 | 2,331,761 | 21,391,603 | – | – |
| **As at December 31, 2022** | 149,407,301 | 47,104,381 | 102,302,920 | – | – |
| **Placements with Central Bank and other Banks** | | | | | |
| Gross carrying amount as at January 01, 2022 | 24,696,280 | – | 24,696,280 | – | – |
| Transfer to Stage 1 | – | – | – | – | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 86,199,464 | – | 86,199,464 | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (30,635,926) | – | (30,635,926) | – | – |
| Foreign exchange adjustments | 15,673,938 | – | 15,673,938 | – | – |
| **As at December 31, 2022** | 95,933,756 | – | 95,933,756 | – | – |

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| | Carrying amount | Not subject to ECL | Subject to 12-month ECL (Stage 1) | Subject to Lifetime ECL not credit impaired (Stage 2) | Subject to Lifetime ECL credit impaired (Stage 3) |
|---|---|---|---|---|---|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| **Financial assets at amortised cost – Loans and advances to other customers** | | | | | |
| Gross carrying amount as at January 01, 2022 | 1,078,685,128 | – | 845,769,327 | 153,840,165 | 79,075,636 |
| Transfer to Stage 1 | – | – | 46,335,517 | (45,139,231) | (1,196,286) |
| Transfer to Stage 2 | – | – | (55,962,595) | 61,299,234 | (5,336,639) |
| Transfer to Stage 3 | – | – | (7,304,423) | (25,793,481) | 33,097,904 |
| New assets originated or purchased | 527,930,404 | – | 477,186,436 | 43,262,493 | 7,481,475 |
| Financial assets derecognised or repaid (excluding write-offs) | (607,652,181) | – | (530,515,444) | (59,019,458) | (18,117,279) |
| Write-offs (*) | (3,238,797) | – | – | – | (3,238,797) |
| Foreign exchange adjustments | 178,832,788 | – | 154,073,420 | 17,785,612 | 6,973,756 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 45,109,901 | – | 1,927,449 | 27,183,367 | 15,999,085 |
| **As at December 31, 2022** | 1,219,667,243 | – | 931,509,687 | 173,418,701 | 114,738,855 |
| **Financial assets at amortised cost – Debt and other financial instruments** | | | | | |
| Gross carrying amount as at January 01, 2022 | 375,085,659 | 284,725,818 | 90,206,971 | – | 152,870 |
| Transfer to Stage 1 | – | – | (83,526,928) | 83,526,928 | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 131,415,907 | 112,978,205 | 1,273,486 | 17,164,216 | – |
| Financial assets derecognised or repaid (excluding write-offs) | (129,343,017) | (51,366,652) | (311,676) | (77,664,689) | – |
| Reclassification adjustment | 312,906,219 | 201,437,745 | – | 111,468,474 | – |
| Foreign exchange adjustments | 106,555,572 | 16,580,767 | 841 | 89,973,964 | – |
| **As at December 31, 2022** | 796,620,340 | 564,355,883 | 7,642,694 | 224,468,893 | 152,870 |
| **Financial assets measured at fair value through other comprehensive income** | | | | | |
| Gross carrying amount as at January 01, 2022 | 340,472,987 | 266,081,811 | 74,391,176 | – | – |
| Transfer to Stage 1 | – | – | (74,391,176) | 74,391,176 | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 103,436,258 | 103,436,258 | – | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (65,513,843) | (65,513,843) | – | – | – |
| Reclassification adjustment | (311,439,672) | (201,437,745) | – | (110,001,927) | – |
| Foreign exchange adjustments | 35,622,732 | 11,981 | – | 35,610,751 | – |
| Change in fair value due to remeasurement | 14,477,778 | 14,477,778 | – | – | |
| **As at December 31, 2022** | 117,056,240 | 117,056,240 | – | – | – |
| **Contingent liabilities and commitments** | | | | | |
| Gross carrying amount as at January 01, 2022 | 680,152,979 | 268,010,348 | 403,336,240 | 5,457,006 | 3,349,385 |
| Transfer to Stage 1 | – | – | 2,741,444 | (2,246,708) | (494,736) |
| Transfer to Stage 2 | – | – | (6,805,111) | 6,897,445 | (92,334) |
| Transfer to Stage 3 | – | – | (36,075) | (62,845) | 98,920 |
| Net change in New assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs) | (132,852,338) | (69,201,252) | (59,087,943) | (4,104,461) | (458,682) |
| **As at December 31, 2022** | 547,300,641 | 198,809,096 | 340,148,555 | 5,940,437 | 2,402,553 |

*(*) Due to enforcement activities, loans and advances amounting to Rs. 16.353 Mn. was written off during the year.*

| | Carrying amount | Not subject to ECL | Subject to 12-month ECL (Stage 1) | Lifetime ECL not credit impaired (Stage 2) | Lifetime ECL credit impaired (Stage 3) |
|---|---|---|---|---|---|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| **Cash and cash equivalents** | | | | | |
| Gross carrying amount as at January 01, 2021 | 50,253,868 | 26,152,779 | 24,101,089 | – | – |
| Transfer to Stage 1 | – | – | – | – | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 19,649,337 | 4,123,577 | 15,525,760 | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (1,817,574) | – | (1,817,574) | – | – |
| **As at December 31, 2021** | 68,085,631 | 30,276,356 | 37,809,275 | – | – |
| **Placements with Central Bank and other Banks** | | | | | |
| Gross carrying amount as at January 01, 2021 | 110,347,301 | – | 110,347,301 | – | – |
| Transfer to Stage 1 | – | – | – | – | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 24,696,280 | – | 24,696,280 | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (110,347,301) | – | (110,347,301) | – | – |
| **As at December 31, 2021** | 24,696,280 | – | 24,696,280 | – | – |
| **Financial assets at amortised cost – Loans and advances to other customers** | | | | | |
| Gross carrying amount as at January 01, 2021 | 947,841,905 | – | 740,254,706 | 105,011,766 | 102,575,433 |
| Transfer to Stage 1 | – | – | 14,755,909 | (13,531,224) | (1,224,685) |
| Transfer to Stage 2 | – | – | (37,213,850) | 59,086,325 | (21,872,475) |
| Transfer to Stage 3 | – | – | (3,669,537) | (4,270,785) | 7,940,322 |
| New assets originated or purchased | 505,250,921 | – | 469,012,166 | 34,049,647 | 2,189,108 |
| Financial assets derecognised or repaid (excluding write-offs) | (394,031,721) | – | (337,369,676) | (37,058,965) | (19,603,080) |
| Write-offs (*) | (929,627) | – | (391) | (84) | (929,152) |
| Changes to contractual cash flows due to modifications not resulting in derecognition | 20,553,650 | – | – | 10,553,485 | 10,000,165 |
| **As at December 31, 2021** | 1,078,685,128 | – | 845,769,327 | 153,840,165 | 79,075,636 |
| **Financial assets at amortised cost – Debt and other financial instruments** | | | | | |
| Gross carrying amount as at January 01, 2021 | 294,836,457 | 197,785,756 | 96,897,831 | – | 152,870 |
| Transfer to Stage 1 | – | – | – | – | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 107,674,053 | 101,713,040 | 5,961,013 | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (33,993,067) | (14,683,780) | (19,309,287) | – | – |
| Reclassification adjustment | – | – | – | – | – |
| Foreign exchange adjustments | 6,568,216 | (89,198) | 6,657,414 | – | – |
| **As at December 31, 2021** | 375,085,659 | 284,725,818 | 90,206,971 | – | 152,870 |

| | Carrying amount | Not subject to ECL | Subject to 12-month ECL (Stage 1) | Lifetime ECL not credit impaired (Stage 2) | Lifetime ECL credit impaired (Stage 3) |
|---|---|---|---|---|---|
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| **Financial assets measured at fair value through other comprehensive income** | | | | | |
| Gross carrying amount as at January 01, 2021 | 280,137,202 | 201,329,443 | 78,807,759 | – | – |
| Transfer to Stage 1 | – | – | – | – | – |
| Transfer to Stage 2 | – | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – | – |
| New assets originated or purchased | 194,086,697 | 186,842,735 | 7,243,962 | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | (121,758,562) | (104,472,602) | (17,285,960) | – | – |
| Reclassification adjustment | – | – | – | – | – |
| Foreign exchange adjustments | 4,461,110 | 1,215 | 4,459,895 | – | – |
| Change in fair value due to remeasurement | (16,453,460) | (17,618,980) | 1,165,520 | – | – |
| **As at December 31, 2021** | 340,472,987 | 266,081,811 | 74,391,176 | – | – |
| **Contingent liabilities and commitments** | | | | | |
| Gross carrying amount as at January 01, 2021 | 727,692,911 | 355,337,535 | 368,695,997 | 2,859,858 | 799,521 |
| Transfer to Stage 1 | – | – | 950,603 | (949,641) | (962) |
| Transfer to Stage 2 | – | – | (3,530,865) | 3,754,729 | (223,864) |
| Transfer to Stage 3 | – | – | (316,640) | (205,849) | 522,489 |
| Net change in New assets originated or purchased/Financial assets derecognised or repaid (excluding write offs) | (47,539,932) | (87,327,187) | 37,537,145 | (2,091) | 2,252,201 |
| **As at December 31, 2021** | 680,152,979 | 268,010,348 | 403,336,240 | 5,457,006 | 3,349,385 |

*(*) Due to enforcement activities, loans and advances amounting to Rs. 685.642 Mn. was written off during the year.*

### 66.1.1 (c) Provision for impairment (ECL) movement

The following tables show reconciliations from the opening to closing balance of the provision for impairment by class of financial instrument.

| | Note | Page No. | 12-month ECL (Stage 1) | Lifetime ECL not credit impaired (Stage 2) | Lifetime ECL – credit impaired (Stage 3) | Total |
|---|---|---|---|---|---|---|
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| **Cash and cash equivalents** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2022 | | | 7,555 | – | – | 7,555 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | 2,551 | – | – | 2,551 |
| New assets originated or purchased | | | 9,917 | – | – | 9,917 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (9,547) | – | – | (9,547) |
| Foreign exchange adjustments | | | 3,214 | – | – | 3,214 |
| **As at December 31, 2022** | 28.1 | 290 | 13,690 | – | – | 13,690 |

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| | Note | Page No. | 12-month ECL (Stage 1) Rs. '000 | Lifetime ECL not credit impaired (Stage 2) Rs. '000 | Lifetime ECL – credit impaired (Stage 3) Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|
| **Placements with Central Bank and other Banks** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2022 | | | 5,930 | – | – | 5,930 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | – | – | – | – |
| New assets originated or purchased | | | 34,111 | – | – | 34,111 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (9,149) | – | – | (9,149) |
| Foreign exchange adjustments | | | 3,219 | – | – | 3,219 |
| **As at December 31, 2022** | 30.1 | 292 | 34,111 | – | – | 34,111 |
| **Financial assets at amortised cost – Loans and advances to other customers** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2022 | | | 10,027,938 | 18,973,409 | 35,065,201 | 64,066,548 |
| Transfer to Stage 1 | | | 6,471,716 | (5,943,868) | (527,848) | – |
| Transfer to Stage 2 | | | (1,857,039) | 3,461,046 | (1,604,007) | – |
| Transfer to Stage 3 | | | (109,841) | (2,897,747) | 3,007,588 | – |
| Net remeasurement of impairment | | | (2,376,706) | 8,918,073 | 8,487,567 | 15,028,934 |
| New assets originated or purchased | | | 4,422,368 | 6,074,364 | 1,925,063 | 12,421,795 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (4,270,370) | (5,947,674) | (5,243,271) | (15,461,315) |
| Write-offs and recoveries | | | – | – | (2,775,787) | (2,775,787) |
| Foreign exchange adjustments | | | 2,181,334 | 1,246,428 | 3,581,147 | 7,008,909 |
| Unwinding of discount | | | – | – | (1,216,457) | (1,216,457) |
| Other movements | | | – | – | 179,665 | 179,665 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | | | 109,187 | 4,364,645 | 5,498,540 | 9,972,372 |
| **As at December 31, 2022** | 33.2 (b) | 298 | 14,598,587 | 28,248,676 | 46,377,401 | 89,224,664 |
| **Financial assets at amortised cost – Debt and other financial instruments** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2022 | | | 5,514,900 | – | 152,870 | 5,667,770 |
| Transfer to Stage 1 | | | (5,514,616) | 5,514,616 | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | 310 | 48,569,835 | – | 48,570,145 |
| New assets originated or purchased | | | 964 | 3,906,890 | – | 3,907,854 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (151) | (5,343,892) | – | (5,344,043) |
| Foreign exchange adjustments | | | – | 10,533,664 | – | 10,533,664 |
| Reclassification adjustment | | | – | 7,349,651 | – | 7,349,651 |
| **As at December 31, 2022** | 34.1 (b) | 301 | 1,407 | 70,530,764 | 152,870 | 70,685,041 |
| **Financial assets measured at fair value through other comprehensive income** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2022 | | | 5,009,649 | – | – | 5,009,649 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | – | – | – | – |
| New assets originated or purchased | | | – | – | – | – |
| Financial assets derecognised or repaid (excluding write-offs) | | | – | – | – | – |
| Foreign exchange adjustments | | | 2,340,002 | – | – | 2,340,002 |
| Reclassification adjustment | | | (7,349,651) | – | – | (7,349,651) |
| **As at December 31, 2022** | 35.2 | 303 | – | – | – | – |

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| | Note | Page No. | 12-month ECL (Stage 1) Rs. '000 | Lifetime ECL not credit impaired (Stage 2) Rs. '000 | Lifetime ECL – credit impaired (Stage 3) Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|
| **Contingent liabilities and commitments** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2022 | | | 2,082,029 | 814,948 | 2,459,923 | 5,356,900 |
| Transfer to Stage 1 | | | 286,298 | (221,211) | (65,087) | – |
| Transfer to Stage 2 | | | (114,454) | 117,751 | (3,297) | – |
| Transfer to Stage 3 | | | (471) | (24,226) | 24,697 | – |
| Net remeasurement of impairment | | | (423,302) | 82,964 | (2,392) | (342,730) |
| New assets originated or purchased | | | 2,774,946 | 1,394,534 | 101,354 | 4,270,834 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (966,417) | (662,532) | (111,089) | (1,740,038) |
| Foreign exchange adjustments | | | 193,992 | 103,453 | 45,276 | 342,721 |
| **As at December 31, 2022** | 57.3 (b) | 346 | 3,832,621 | 1,605,681 | 2,449,385 | 7,887,687 |

| | Note | Page No. | 12-month ECL (Stage 1) Rs. '000 | Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Lifetime ECL – credit impaired (Stage 3) Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2021 | | | 3,241 | – | – | 3,241 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | (1,124) | – | – | (1,124) |
| New assets originated or purchased | | | 6,332 | – | – | 6,332 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (895) | – | – | (895) |
| Foreign exchange adjustments | | | 1 | – | – | 1 |
| **As at December 31, 2021** | 28.1 | 290 | 7,555 | – | – | 7,555 |
| **Placements with Central Bank and other Banks** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2021 | | | 3,003 | – | – | 3,003 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| New assets originated or purchased | | | 5,826 | – | – | 5,826 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (3,003) | – | – | (3,003) |
| Foreign exchange adjustments | | | 104 | – | – | 104 |
| **As at December 31, 2021** | 30.1 | 292 | 5,930 | – | – | 5,930 |

| | Note | Page No. | 12-month ECL (Stage 1) Rs. '000 | Lifetime ECL – not credit impaired (Stage 2) Rs. '000 | Lifetime ECL – credit impaired (Stage 3) Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|
| **Financial assets at amortised cost – Loans and advances to other customers** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2021 | | | 6,470,880 | 12,244,433 | 32,281,139 | 50,996,452 |
| Transfer to Stage 1 | | | 1,112,720 | (857,754) | (254,966) | – |
| Transfer to Stage 2 | | | (792,269) | 2,475,531 | (1,683,262) | – |
| Transfer to Stage 3 | | | (39,996) | (632,774) | 672,770 | – |
| Net remeasurement of impairment | | | 1,186,680 | 2,381,767 | 3,708,633 | 7,277,080 |
| New assets originated or purchased | | | 2,863,733 | 3,934,433 | 501,304 | 7,299,470 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (778,565) | (2,242,555) | (3,050,647) | (6,071,767) |
| Write-offs and recoveries | | | (482) | (158) | (691,667) | (692,307) |
| Foreign exchange adjustments | | | 5,237 | (15) | 93,581 | 98,803 |
| Unwinding of discount | | | – | – | (1,132,155) | (1,132,155) |
| Other movements | | | – | – | 242,393 | 242,393 |
| Changes to contractual cash flows due to modifications not resulting in derecognition | | | – | 1,670,501 | 4,378,078 | 6,048,579 |
| **As at December 31, 2021** | 33.2 (b) | 298 | 10,027,938 | 18,973,409 | 35,065,201 | 64,066,548 |
| **Financial assets at amortised cost – Debt and other financial instruments** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2021 | | | 1,956,021 | – | 152,870 | 2,108,891 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | 3,922,155 | – | – | 3,922,155 |
| New assets originated or purchased | | | 151 | – | – | 151 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (363,427) | – | – | (363,427) |
| Reclassification adjustment | | | – | – | – | – |
| **As at December 31, 2021** | 34.1 (b) | 301 | 5,514,900 | – | 152,870 | 5,667,770 |
| **Financial assets measured at fair value through other comprehensive income** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2021 | | | 1,675,834 | – | – | 1,675,834 |
| Transfer to Stage 1 | | | – | – | – | – |
| Transfer to Stage 2 | | | – | – | – | – |
| Transfer to Stage 3 | | | – | – | – | – |
| Net remeasurement of impairment | | | 3,514,986 | – | – | 3,514,986 |
| New assets originated or purchased | | | 75,245 | – | – | 75,245 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (256,416) | – | – | (256,416) |
| Reclassification adjustment | | | – | – | – | – |
| **As at December 31, 2021** | 35.2 | 303 | 5,009,649 | – | – | 5,009,649 |
| **Contingent liabilities and commitments** | | | | | | |
| Provision for impairment (ECL) as at January 01, 2021 | | | 1,532,691 | 244,482 | 339,676 | 2,116,849 |
| Transfer to Stage 1 | | | 70,078 | (67,475) | (2,603) | – |
| Transfer to Stage 2 | | | (38,578) | 149,953 | (111,375) | – |
| Transfer to Stage 3 | | | (484) | (2,073) | 2,557 | – |
| Net remeasurement of impairment | | | (52,145) | 42,244 | 7,427 | (2,474) |
| New assets originated or purchased/Financial assets derecognised or repaid (excluding write-offs) | | | 1,100,870 | 612,002 | 2,428,786 | 4,141,658 |
| Financial assets derecognised or repaid (excluding write-offs) | | | (532,879) | (164,185) | (204,545) | (901,609) |
| Foreign exchange adjustments | | | 2,476 | – | – | 2,476 |
| **As at December 31, 2021** | 57.3 (b) | 346 | 2,082,029 | 814,948 | 2,459,923 | 5,356,900 |

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### 66.1.1 (d) Financial assets recognised through profit or loss measured at fair value

*Fair value through profit or loss investments in debt and equity securities*

The table below sets out the credit quality of debt and equity securities classified through profit or loss measured at fair value. Debt securities include investments made by the Bank in Government Securities of Sri Lanka and Bangladesh. The analysis of equity securities is based on Fitch Rating Nomenclature or Equivalent Ratings, where applicable.

| | Note | Page No. | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|---|---|
| **Debt instruments at FVTPL** | | | | |
| **Government securities – Sri Lanka** | | | | |
| Treasury bills | | | - | 1,782,169 |
| Treasury bonds | | | 3,643,078 | 5,219,111 |
| **Government securities – Bangladesh** | | | | |
| Treasury bills | | | 11,703,803 | 5,782,971 |
| Treasury bonds | | | 7,501,370 | 9,055,000 |
| **Subtotal – Debt instruments at FVTPL** | 32.1 | 293 | 22,848,251 | 21,839,251 |
| **Equity instruments at FVTPL** | | | | |
| Rated AAA | | | 69,357 | 60,119 |
| Rated AA+ to AA- | | | 72,515 | 132,637 |
| Rated A+ to A | | | 1,553,097 | 1,021,457 |
| Rated BBB+ | | | 5,628 | 9,359 |
| Unrated | | | 324,209 | 373,300 |
| **Subtotal – Equity instruments at FVTPL** | 32.2 | 293 | 2,024,806 | 1,596,872 |
| **Total** | 32 | 293 | 24,873,057 | 23,436,123 |

*Credit exposure arising from derivative transactions*

Credit risk arising from derivative financial instruments at any time is limited to those with positive fair values, as reported in the Statement of Financial Position. With gross settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the counterparty failing to deliver the value.

The tables below show analysis of credit exposures arising from derivative financial assets and liabilities:

| *As at December 31, 2022* | Derivative type | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Forward | | SWAPS | | Spot | | Options | | Total | |
| | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 |
| **Derivative financial assets (Note 1)** | 30,653,862 | 1,349,719 | 67,008,905 | 6,994,807 | 627,386 | 565 | – | – | 98,290,153 | 8,345,091 |
| **Derivative financial liabilities (Note 2)** | 10,700,174 | (373,965) | 19,637,659 | (2,505,643) | 99,600 | (1,059) | – | – | 30,437,433 | (2,880,667) |
| Note 1 | | | | | | | | | | |
| Derivative financial assets by counterparty type | | | | | | | | | | |
| Banks | 734,000 | 11,409 | 64,806,905 | 6,785,681 | 627,386 | 59 | – | – | 66,168,291 | 6,797,149 |
| Other customers | 29,919,862 | 1,338,310 | 2,202,000 | 209,126 | – | 506 | – | – | 32,121,862 | 1,547,942 |
| **Total** | 30,653,862 | 1,349,719 | 67,008,905 | 6,994,807 | 627,386 | 565 | – | – | 98,290,153 | 8,345,091 |
| Note 2 | | | | | | | | | | |
| Derivative financial liabilities by counterparty type | | | | | | | | | | |
| Banks | 183,500 | (777) | 14,496,500 | (951,449) | 99,600 | (976) | – | – | 14,779,600 | (953,202) |
| Other customers | 10,516,674 | (373,188) | 5,141,159 | (1,554,194) | – | (83) | – | – | 15,657,833 | (1,927,465) |
| **Total** | 10,700,174 | (373,965) | 19,637,659 | (2,505,643) | 99,600 | (1,059) | – | – | 30,437,433 | (2,880,667) |

| *As at December 31, 2021* | Derivative type | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Forward | | SWAPS | | Spot | | Options | | Total | |
| | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 | Notional amount Rs. '000 | Fair value Rs. '000 |
| **Derivative financial assets (Note 1)** | 26,160,622 | 572,517 | 126,174,859 | 2,672,049 | 1,103,111 | 170 | 95,101 | 384 | 153,533,693 | 3,245,120 |
| **Derivative financial liabilities (Note 2)** | 6,483,380 | (258,788) | 56,743,238 | (1,827,553) | 5,449,768 | (5,473) | 95,101 | (384) | 68,771,487 | (2,092,198) |
| Note 1 | | | | | | | | | | |
| Derivative financial assets by counterparty type | | | | | | | | | | |
| With Banks | 1,045,000 | 10,277 | 125,174,859 | 2,465,767 | 920,906 | 170 | 16,044 | 66 | 127,156,809 | 2,476,280 |
| Other customers | 25,115,622 | 562,240 | 1,000,000 | 206,282 | 182,205 | – | 79,057 | 318 | 26,376,884 | 768,840 |
| **Total** | 26,160,622 | 572,517 | 126,174,859 | 2,672,049 | 1,103,111 | 170 | 95,101 | 384 | 153,533,693 | 3,245,120 |
| Note 2 | | | | | | | | | | |
| Derivative financial liabilities by counterparty type | | | | | | | | | | |
| With Banks | 650,000 | (266) | 52,838,955 | (1,138,159) | 476,165 | (434) | 79,057 | (318) | 54,044,177 | (1,139,177) |
| Other customers | 5,833,380 | (258,522) | 3,904,283 | (689,394) | 4,973,603 | (5,039) | 16,044 | (66) | 14,727,310 | (953,021) |
| **Total** | 6,483,380 | (258,788) | 56,743,238 | (1,827,553) | 5,449,768 | (5,473) | 95,101 | (384) | 68,771,487 | (2,092,198) |

### 66.1.2 Credit-impaired financial assets

Reconciliation of changes in the net carrying amount of lifetime ECL credit impaired (Stage 3) loans and advances as detailed below:

| | **2022 Rs. '000** | 2021 Rs. '000 |
|---|---|---|
| Stage 3 loans and advances to other customers as at January 01, | 44,010,435 | 70,294,294 |
| Newly classified as impaired loans and advances during the year | 35,938,834 | 12,100,621 |
| Net change in already impaired loans and advances during the year | (3,775,606) | (4,238,959) |
| Net payment, write-off and recoveries and other movements during the year | (7,812,209) | (34,145,521) |
| **Impaired loans and advances to customers as at December 31,** | 68,361,454 | 44,010,435 |

Refer Note 18 for methodology of impairment assessment, on "Impairment charges on loans and advances to other customers" on pages 276 to 279.

Details of provision for impairment for loans and advances to other customers, are detailed in Note 33 on page 296.

Set out below is an analysis of the gross and net carrying amounts of life time ECL credit impaired (Stage 3) loans and advances to other customers by risk rating.

| *As at December 31,* | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Gross carrying amount Rs. '000** | **Net carrying amount Rs. '000** | Gross carrying amount Rs. '000 | Net carrying amount Rs. '000 |
| Rating 0-4: Investment grade | 12,696,806 | 10,561,921 | 7,043,001 | 5,136,063 |
| Rating 5-6: Moderate risk | 23,507,688 | 15,430,726 | 16,700,580 | 10,016,789 |
| Rating 7-8: High risk | 24,622,313 | 16,284,152 | 7,478,902 | 5,492,123 |
| Rating 9: Extreme risk | 53,912,048 | 26,084,655 | 47,853,153 | 23,365,460 |
| **Total** | 114,738,855 | 68,361,454 | 79,075,636 | 44,010,435 |

### 66.1.3 Sensitivity of impairment provision on loans and advances to other customers and FCY denominated Government securities

The Bank has estimated the impairment provision on loans and advances to other customers and FCY denominated Government securities as at December 31, 2022, subject to various assumptions. The changes to such assumptions may lead to changes in the impairment provision recorded in the Statement of Financial Position.

The following table demonstrates the sensitivity of the impairment provision on loans and advances to other customers and FCY denominated Government securities of the Bank as at December 31, 2022 to a feasible change in impairment parameters.

| Impairment parameters | Sensitivity effect on Statement of Financial Position [Increase/(decrease) in impairment provision] | | | | Sensitivity effect on Income Statement |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| 1% increase in PD across all age buckets | 4,908,777 | 563,076 | – | 5,471,853 | (5,471,853) |
| 1% decrease in PD across all age buckets (*) | (4,504,024) | (563,076) | – | (5,067,100) | 5,067,100 |
| 5% increase in LGD | 1,628,773 | 2,672,128 | 2,291,569 | 6,592,470 | (6,592,470) |
| 5% decrease in LGD (*) | (1,628,773) | (2,672,128) | (2,291,569) | (6,592,470) | 6,592,470 |
| **Probability weighted forward looking macro economic indicators (**)** | | | | | |
| – Base case 10% increase, worst case 5% decrease and best case 5% decrease | (23,654) | (28,310) | – | (51,964) | 51,964 |
| – Base case 10% decrease, worst case 5% increase and best case 5% increase | 23,654 | 28,310 | – | 51,964 | (51,964) |
| **Sensitivity of impairment provision on foreign currency denominated government securities** | | | | | |
| 2% increase in loss rate | N/A | 4,261,713 | N/A | 4,261,713 | (4,261,713) |
| 2% decrease in loss rate | N/A | (4,261,713) | N/A | (4,261,713) | 4,261,713 |

*(*) The PD/LGD decrease is capped at 0%, if applicable.*
*(**) Please refer Note 18 for explanation on forward looking Macro Economic Indicators.*

### 66.1.4 Collateral held

#### Loan-to-value ratio of residential mortgage lending

The table below stratifies eligible credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral, which is used for the computation of Capital Adequacy Ratios. The value of the collateral for residential mortgage loan is based on the forced sale value determined by professional valuers.

| *As at December 31,* | 2022 | | 2021 | |
|---|---|---|---|---|
| | Rs. '000 | Composition (%) | Rs. '000 | Composition (%) |
| LTV ratio | | | | |
| Less than 50% | 18,404,643 | 26.38 | 14,656,389 | 22.71 |
| 51% – 70% | 17,607,065 | 25.23 | 15,284,539 | 23.69 |
| 71% – 90% | 17,951,133 | 25.73 | 18,030,113 | 27.94 |
| 91% – 100% | 1,798,987 | 2.58 | 2,373,719 | 3.68 |
| More than 100% (*) | 14,008,690 | 20.08 | 14,182,945 | 21.98 |
| **Total** | 69,770,518 | 100.00 | 64,527,705 | 100.00 |

*(*) LTV ratio of more than 100% has been arisen due to subsequent disbursements made to the borrower after the initial valuation of the property (the denominator).*

The total amount mentioned above does not tally to the total of residential mortgage lending by the Bank, as some of the residential mortgage lending are not eligible to apply preferential risk weight used in the calculation of Capital Adequacy Ratio.

#### Assets obtained by taking the possession of collaterals

Repossession of collaterals is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and a transparent manner and the proceeds are used to reduce or recover the outstanding claims and the amounts recovered in excess of the dues are refunded to the customers.

### 66.1.5 Concentration of credit risk

By setting various concentration limits under different criteria within the established risk appetite framework (i.e. single borrower/group, industry sectors, product, counterparty and country limits etc.), the Bank ensures that an acceptable level of risk diversification is maintained on an ongoing basis. These limits are continuously monitored and periodically reviewed by the Credit Policy Committee (CPC), EIRMC and BIRMC to capture the developments in the market, political and economic environment both locally and globally to strengthen the dynamic portfolio management practices and to provide early warning signals on possible credit concentrations.

The maximum exposure to credit risk in respect of each item of financial assets in the Statement of Financial Position as at the reporting date, as per the industry sector and by geographical region of financial assets is given below:

## 66.1.5 (a) Industry-wise distribution

| *As at December 31, 2022* | Agriculture, Forestry and fishing Rs. '000 | Manufacturing Rs. '000 | Tourism Rs. '000 | Transportation and storage Rs. '000 | Construction Rs. '000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | – | – | – | – | – |
| Balances with central banks | – | – | – | – | – |
| Placements with banks | – | – | – | – | – |
| Securities purchased under resale agreements | – | – | – | – | – |
| Derivative financial assets | – | 192,224 | – | – | – |
| Financial assets measured at FVTPL | – | 217,799 | 52,749 | – | 8,081 |
| Government securities | – | – | – | – | – |
| Quoted equity securities | – | 217,799 | 52,749 | – | 8,081 |
| Financial assets at AC – Loans and advances to other customers (*) | 119,101,284 | 138,081,651 | 69,255,174 | 19,555,677 | 45,902,727 |
| Financial assets at AC – Debt and other financial instruments | – | 5,332,844 | – | – | – |
| Government securities | – | – | – | – | – |
| Other investments | – | 5,332,844 | – | – | – |
| Financial assets measured at FVOCI | – | 10,284 | – | – | 140,282 |
| Government securities | – | – | – | – | – |
| Equity securities | – | 10,284 | – | – | 140,282 |
| **Total** | 119,101,284 | 143,834,802 | 69,307,923 | 19,555,677 | 46,051,090 |

| *As at December 31, 2021* | Agriculture, Forestry and fishing Rs. '000 | Manufacturing Rs. '000 | Tourism Rs. '000 | Transportation and storage Rs. '000 | Construction Rs. '000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | – | – | – | – | – |
| Balances with central banks | – | – | – | – | – |
| Placements with banks | – | – | – | – | – |
| Securities purchased under resale agreements | – | – | – | – | – |
| Derivative financial assets | – | – | – | – | – |
| Financial assets measured at FVTPL | – | 254,076 | 28,698 | – | 19,470 |
| Government securities | – | – | – | – | – |
| Quoted equity securities | – | 254,076 | 28,698 | – | 19,470 |
| Financial assets at AC – Loans and advances to other customers (*) | 86,950,254 | 136,875,888 | 58,820,254 | 18,898,846 | 47,015,068 |
| Financial assets at AC – Debt and other financial instruments | – | 5,332,910 | – | – | – |
| Government securities | – | – | – | – | – |
| Other investments | – | 5,332,910 | – | – | – |
| Financial assets measured at FVOCI | – | 22,712 | – | – | 373,634 |
| Government securities | – | – | – | – | – |
| Equity securities | – | 22,712 | – | – | 373,634 |
| **Total** | 86,950,254 | 142,485,586 | 58,848,952 | 18,898,846 | 47,408,172 |

*(*) Loans and advances to other customers referred above do not agree with the Note 33.1 (c) on page 298 due to impairment provisions.*

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| Infrastructure development | Wholesale and retail trade | Information technology and communication services | Financial services | Professional, scientific and technical activities | Arts, entertainment and recreation | Education | Healthcare, social services and support services | Consumption | Lending to overseas entities | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| – | – | – | 149,393,611 | – | – | – | – | – | – | 149,393,611 |
| – | – | – | 66,493,499 | – | – | – | – | – | – | 66,493,499 |
| – | – | – | 95,899,645 | – | – | – | – | – | – | 95,899,645 |
| – | – | – | 1,517,308 | – | – | – | – | – | – | 1,517,308 |
| – | – | 698 | 8,152,169 | – | – | – | – | – | – | 8,345,091 |
| – | 36,033 | 55,739 | 24,468,610 | – | – | – | 34,046 | – | – | 24,873,057 |
| – | – | – | 22,848,251 | – | – | – | – | – | – | 22,848,251 |
| – | 36,033 | 55,739 | 1,620,359 | – | – | – | 34,046 | – | – | 2,024,806 |
| 29,344,504 | 236,929,496 | 16,654,877 | 94,450,017 | 26,159,612 | 1,372,606 | 3,304,916 | 20,536,024 | 122,617,256 | 187,176,758 | 1,130,442,579 |
| – | 80,257 | – | 720,522,198 | – | – | – | – | – | – | 725,935,299 |
| – | – | – | 718,294,012 | – | – | – | – | – | – | 718,294,012 |
| – | 80,257 | – | 2,228,186 | – | – | – | – | – | – | 7,641,287 |
| – | – | – | 116,897,054 | 8,620 | – | – | – | – | – | 117,056,240 |
| – | – | – | 116,840,307 | – | – | – | – | – | – | 116,840,307 |
| – | – | – | 56,747 | 8,620 | – | – | – | – | – | 215,933 |
| 29,344,504 | 237,045,786 | 16,711,314 | 1,277,794,111 | 26,168,232 | 1,372,606 | 3,304,916 | 20,570,070 | 122,617,256 | 187,176,758 | 2,319,956,329 |

| Infrastructure development | Wholesale and retail trade | Information technology and communication services | Financial services | Professional, scientific and technical activities | Arts, entertainment and recreation | Education | Healthcare, social services and support services | Consumption | Lending to overseas entities | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| – | – | – | 68,078,076 | – | – | – | – | – | – | 68,078,076 |
| – | – | – | 52,897,908 | – | – | – | – | – | – | 52,897,908 |
| – | – | – | 11,584,952 | – | – | – | – | – | – | 11,584,952 |
| – | – | – | 3,000,490 | – | – | – | – | – | – | 3,000,490 |
| – | 60 | 9,449 | 3,235,611 | – | – | – | – | – | – | 3,245,120 |
| – | 100,403 | 15,974 | 22,980,249 | – | – | – | 37,253 | – | – | 23,436,123 |
| – | – | – | 21,839,251 | – | – | – | – | – | – | 21,839,251 |
| – | 100,403 | 15,974 | 1,140,998 | – | – | – | 37,253 | – | – | 1,596,872 |
| 25,140,149 | 204,100,922 | 14,613,393 | 70,267,313 | 26,226,776 | 1,054,749 | 3,876,141 | 23,181,624 | 161,683,553 | 135,913,650 | 1,014,618,580 |
| – | 80,280 | – | 364,004,699 | – | – | – | – | – | – | 369,417,889 |
| – | – | – | 362,738,130 | – | – | – | – | – | – | 362,738,130 |
| – | 80,280 | – | 1,266,569 | – | – | – | – | – | – | 6,679,759 |
| – | – | – | 335,058,372 | 8,620 | – | – | – | – | – | 335,463,338 |
| – | – | – | 335,013,606 | – | – | – | – | – | – | 335,013,606 |
| – | – | – | 44,766 | 8,620 | – | – | – | – | – | 449,732 |
| 25,140,149 | 204,281,665 | 14,638,816 | 931,107,670 | 26,235,396 | 1,054,749 | 3,876,141 | 23,218,877 | 161,683,553 | 135,913,650 | 1,881,742,476 |

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### 66.1.5 (b) Geographical distribution of loans and 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 79% (approximately) of total advances portfolio of the Bank (excluding Bangladesh operations) 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 utilised to facilitate industries scattered around the country. For example, most of the large corporates which have island-wide operations are being accommodated by the Bank's branches and corporate banking division located in the Western Province thereby reflecting a fairly diversified geographical concentration as given below.

As at December 31, 2022

| Country/province | Loans and advances by product | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Overdrafts Rs. '000** | **Trade finance Rs. '000** | **Lease receivables Rs. '000** | **Credit cards Rs. '000** | **Pawning Rs. '000** | **Staff loans Rs. '000** | **Housing loans Rs. '000** | **Personal loans Rs. '000** | **Long-term loans Rs. '000** | **Short-term loans Rs. '000** | **Bills of exchange Rs. '000** | **Total Rs. '000** |
| **Sri Lanka** | | | | | | | | | | | | |
| Central | 9,214,248 | 241,010 | 1,485,765 | 776,942 | 765,533 | 7,271 | 4,268,379 | 2,391,002 | 21,211,080 | 2,925,154 | 62,187 | 43,348,571 |
| Eastern | 816,917 | 4,331 | 1,074,882 | 194,497 | 632,419 | 2,791 | 864,460 | 1,248,254 | 3,752,284 | 260,087 | – | 8,850,922 |
| North Central | 556,957 | 22,282 | 1,499,504 | 191,049 | 291,304 | 676 | 854,497 | 1,849,881 | 7,455,612 | 135,424 | 23,670 | 12,880,856 |
| Northern | 5,165,602 | 440,196 | 2,498,611 | 664,031 | 1,232,241 | 3,664 | 3,997,158 | 3,068,122 | 13,875,331 | 2,554,660 | 7,688 | 33,507,304 |
| North Western | 2,636,468 | 31,979 | 2,241,198 | 242,931 | 5,178,565 | 4,200 | 1,312,562 | 1,734,575 | 6,636,431 | 356,298 | – | 20,375,207 |
| Sabaragamuwa | 4,387,024 | 365,634 | 2,180,345 | 428,457 | 482,501 | 6,433 | 3,224,079 | 1,703,202 | 12,088,788 | 1,343,088 | – | 26,209,551 |
| Southern | 5,018,670 | 2,981,356 | 2,655,293 | 757,217 | 1,565,460 | 8,977 | 5,661,247 | 3,645,571 | 16,597,312 | 3,829,671 | – | 42,720,774 |
| Uva | 784,139 | – | 880,251 | 199,390 | 175,596 | 1,145 | 1,820,026 | 983,583 | 5,849,216 | 241,658 | – | 10,935,004 |
| Western | 84,014,118 | 94,776,470 | 15,358,227 | 12,423,195 | 6,026,322 | 13,060,112 | 49,737,425 | 23,470,654 | 322,792,502 | 114,300,412 | 8,522,213 | 744,481,650 |
| Bangladesh | 19,722,269 | 10,682,117 | 2,029,750 | 318,428 | – | 527,586 | 2,326,431 | 853,814 | 25,575,627 | 102,359,400 | 22,737,318 | 187,132,740 |
| **Net Loans and advances** | **132,316,412** | **109,545,375** | **31,903,826** | **16,196,137** | **16,349,941** | **13,622,855** | **74,066,264** | **40,948,658** | **435,834,183** | **228,305,852** | **31,353,076** | **1,130,442,579** |

As at December 31, 2021

| Country/province | Loans and advances by product | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Overdrafts Rs. '000 | Trade finance Rs. '000 | Lease receivables Rs. '000 | Credit cards Rs. '000 | Pawning Rs. '000 | Staff loans Rs. '000 | Housing loans Rs. '000 | Personal loans Rs. '000 | Long-term loans Rs. '000 | Short-term loans Rs. '000 | Bills of exchange Rs. '000 | Total Rs. '000 |
| **Sri Lanka** | | | | | | | | | | | | |
| Central | 9,014,862 | 243,021 | 1,648,083 | 750,949 | 284,385 | 5,357 | 4,154,739 | 2,795,812 | 21,230,413 | 1,928,065 | 68,999 | 42,124,685 |
| Eastern | 667,814 | 207,635 | 1,101,555 | 201,439 | 200,954 | 925 | 681,411 | 1,510,663 | 3,737,455 | 213,758 | – | 8,523,609 |
| North Central | 609,540 | 28,950 | 1,538,530 | 185,745 | 110,745 | 338 | 794,010 | 2,144,945 | 7,807,070 | 71,131 | – | 13,291,004 |
| Northern | 5,164,010 | 857,905 | 3,051,813 | 679,061 | 554,276 | 1,062 | 4,103,385 | 3,768,105 | 15,587,606 | 2,429,403 | 22,931 | 36,219,557 |
| North Western | 3,027,071 | 60,218 | 2,592,115 | 253,019 | 2,999,299 | 805 | 1,430,074 | 2,099,549 | 7,239,490 | 406,959 | – | 20,108,599 |
| Sabaragamuwa | 4,434,705 | 774,729 | 2,471,244 | 450,378 | 222,499 | 4,244 | 3,105,764 | 2,031,204 | 12,927,466 | 838,274 | – | 27,260,507 |
| Southern | 5,384,533 | 2,074,018 | 3,114,127 | 751,968 | 738,866 | 5,776 | 6,013,836 | 4,399,526 | 18,308,545 | 1,050,384 | – | 41,841,579 |
| Uva | 941,639 | – | 1,051,816 | 213,792 | 67,510 | 82 | 1,867,459 | 1,187,999 | 6,180,691 | 225,885 | – | 11,736,873 |
| Western | 66,606,158 | 80,326,737 | 18,249,874 | 11,493,752 | 2,415,464 | 12,812,122 | 49,272,824 | 28,448,277 | 290,258,900 | 112,482,160 | 5,248,661 | 677,614,929 |
| Bangladesh | 11,520,550 | 5,227,974 | 1,194,708 | 176,147 | – | 235,392 | 1,343,045 | 619,047 | 15,690,846 | 58,378,032 | 41,511,497 | 135,897,238 |
| **Net Loans and advances** | **107,370,882** | **89,801,187** | **36,013,865** | **15,156,250** | **7,593,998** | **13,066,103** | **72,766,547** | **49,005,127** | **398,968,482** | **178,024,051** | **46,852,088** | **1,014,618,580** |

*Please refer Note 33 on pages 296 to 300 for the gross carrying amount of the loans and advances to other customers.*

## 66.2 Liquidity risk

Liquidity risk arises because of the possibility that the Bank might not be able to meet On or Off-balance sheet contractual financial obligations on its payments or not receiving what is due to the Bank when they fall due, without incurring unacceptable losses. The principal objective in liquidity risk management is to assess the need for funds to meet such obligations, make sure receipt of funds when they are due and to ensure the availability of adequate funding to fulfill those needs at the appropriate time, under both normal and stressed conditions.

Therefore, the Bank continuously analyses and monitors its liquidity profile, maintains adequate levels of high quality liquid assets, ensures access to diverse funding sources and has contingency funding agreements with peer banks to meet any unforeseen liquidity requirements. Exposures, and ratios against tolerance limits as well as stressed scenarios are regularly monitored in order to identify the Bank's liquidity position and potential funding requirements.

### Assets and Liability Management Committee (ALCO)

ALCO chaired by the Managing Director, has representatives from Treasury, Corporate Banking, Personal Banking, Risk and Finance Departments. The Committee meets fortnightly or more frequently to monitor and manage the assets and liabilities of the Bank and also the overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying the regulatory requirements.

### 66.2.1 Exposure to liquidity risk

The Bank uses the key ratios given below for managing liquidity risk:

| | | Minimum Requirement | | | |
|---|---|---|---|---|---|
| | | **2022** % | 2021 % | **2022** % | 2021 % |
| **Liquid Assets Ratio (LAR)** LAR calculates the percentage of liquid assets to total liabilities excluding shareholders' funds. For this purpose, "liquid assets" include cash and cash equivalents, Placements with banks and Government Securities (net). | Domestic Banking Unit | **20.00** | 20.00 | **35.01** | 38.73 |
| | Off shore Banking Centre | **20.00** | 20.00 | **32.37** | 36.39 |
| | Consolidated (Sri Lankan Operation) | **20.00** | N/A | **35.88** | N/A |
| **Liquidity Coverage Ratio (LCR)*** This ratio determines the ability of the Bank to withstand adverse shocks (i.e. sudden withdrawal of a significant portion of deposits) by holding high quality liquid assets in a 30 day time span. | Rupee Liquidity Requirement | **90.00** | 100.00 | **405.91** | 425.97 |
| | All-Currency Liquidity Requirement | **90.00** | 100.00 | **293.91** | 242.52 |
| **Net Stable Funding Ratio (NSFR)*** This ratio measures the availability of Stable Funds against the Required Funds of the Bank. NSFR, requires banks to maintain a stable funding profile by creating additional incentives to fund their activities with more stable sources of funding on an ongoing basis, over a longer time horizon. | | **90.00** | 100.00 | **173.58** | 157.47 |

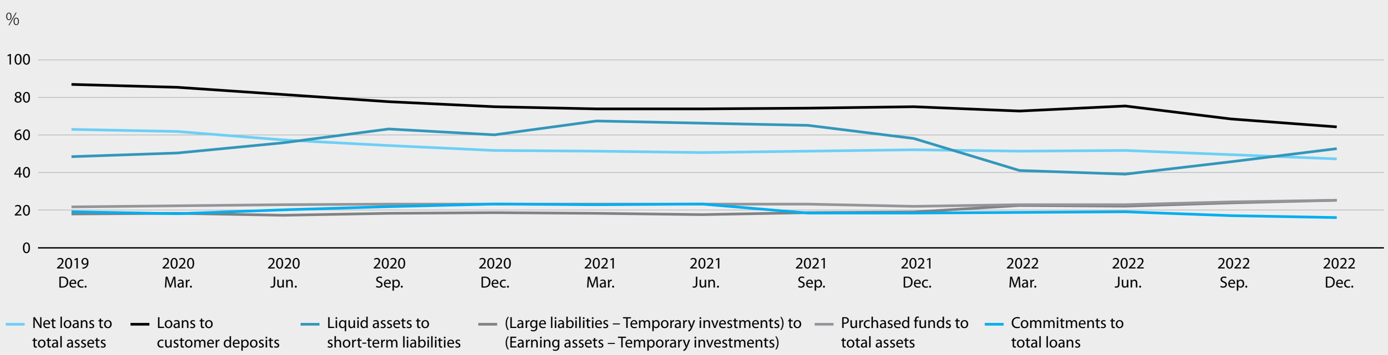
**Details of LCR and NSFR are given in Disclosure 04 and 05 as per Basel III disclosures under Pillar III on page 413.*

Details of the reported LAR of liquid assets to external liabilities of the Domestic Banking Unit (DBU) and the Off-shore Banking Centre (OBC) as at reporting dates are as follows:

| | Domestic Banking Unit | | Off-shore Banking Centre | |
|---|---|---|---|---|
| | **2022** % | 2021 % | **2022** % | 2021 % |
| As at December 31, | **35.01** | 38.73 | **32.37** | 36.39 |
| Average for the period | **32.17** | 44.16 | **30.46** | 34.47 |
| Maximum for the period | **39.68** | 47.38 | **34.49** | 38.28 |
| Minimum for the period | **25.37** | 38.73 | **26.15** | 32.79 |
| **Statutory minimum requirement** | **20.00** | 20.00 | **20.00** | 20.00 |

The graph below depicts the trends in liquidity ratios of the Bank calculated on a quarterly basis during the period from December 2019 to December 2022:

Graph – 71: **Liquidity ratios**

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## 66.2.2 Maturity analysis of financial assets and financial liabilities

### 66.2.2 (a) Remaining contractual period to maturity – Bank

(i) Remaining contractual period to maturity of the assets employed by the Bank as at the date of Statement of Financial Position, is detailed below:

| *As at December 31,* | Up to 3 months Rs. '000 | 3 to 12 months Rs.'000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | **Total as at December 31, 2022 Rs. '000** | Total as at December 31, 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Interest earning financial assets:** | | | | | | | |
| Cash and cash equivalents | 16,544,051 | – | – | – | – | 16,544,051 | 13,442,860 |
| Balances with central banks | 2,885,093 | – | – | – | – | 2,885,093 | 13,610,417 |
| Placements with banks | 74,515,587 | – | – | – | – | 74,515,587 | 11,584,952 |
| Securities purchased under resale agreements | 1,517,308 | – | – | – | – | 1,517,308 | 3,000,490 |
| Financial assets measured at FVTPL | 22,848,251 | – | – | – | – | 22,848,251 | 21,839,251 |
| Financial assets at amortised cost – Loans and advances to other customers | 475,157,631 | 262,608,426 | 225,145,894 | 109,783,984 | 57,746,644 | 1,130,442,579 | 1,014,618,580 |
| Financial assets at amortised cost – Debt and other financial instruments | 89,547,952 | 94,485,925 | 297,267,724 | 150,916,604 | 93,717,094 | 725,935,299 | 369,417,889 |
| Financial assets measured at FVOCI | 80,088,485 | 33,978,444 | 1,819,164 | 500,156 | 454,058 | 116,840,307 | 335,013,606 |
| **Total interest earning assets as at December 31, 2022** | 763,104,358 | 391,072,795 | 524,232,782 | 261,200,744 | 151,917,796 | 2,091,528,475 | |
| Total Interest earning assets as at December 31, 2021 | 504,672,889 | 360,995,456 | 490,958,838 | 239,453,192 | 186,447,670 | | 1,782,528,045 |
| **Non-interest earning financial assets:** | | | | | | | |
| Cash and cash equivalents | 132,849,560 | – | – | – | – | 132,849,560 | 54,635,216 |
| Balances with Central Banks | 37,405,931 | 23,122,503 | 1,870,905 | 1,209,067 | – | 63,608,406 | 39,287,491 |
| Placements with banks | 8,540,099 | 12,843,959 | – | – | – | 21,384,058 | – |
| Derivative financial assets | 1,725,935 | 187,116 | – | 6,432,040 | – | 8,345,091 | 3,245,120 |
| Financial assets measured at FVTPL | 2,024,806 | – | – | – | – | 2,024,806 | 1,596,872 |
| Financial assets measured at FVOCI | 150,566 | – | – | 65,367 | – | 215,933 | 449,732 |
| **Non-financial assets** | | | | | | | |
| Investments in subsidiaries | – | – | – | – | 5,808,429 | 5,808,429 | 5,808,429 |
| Investment in associate | – | – | – | – | 44,331 | 44,331 | 44,331 |
| Property, plant and equipment and right-of-use assets | – | – | – | – | 25,425,452 | 25,425,452 | 23,075,467 |
| Intangible assets | – | – | – | – | 3,563,120 | 3,563,120 | 1,724,864 |
| Deferred tax assets | – | – | 30,301,203 | – | – | 30,301,203 | 9,793,129 |
| Other assets | 32,181,529 | 1,070,568 | 895,910 | 832,908 | 5,718,253 | 40,699,168 | 27,024,475 |
| **Total Non-interest earning assets as at December 31, 2022** | 214,848,426 | 37,224,146 | 33,068,018 | 8,539,382 | 40,559,585 | 334,269,557 | |
| Total Non-interest earning assets as at December 31, 2021 | 102,832,820 | 15,641,434 | 12,185,431 | 1,067,926 | 34,957,515 | | 166,685,126 |
| **Total assets – As at December 31, 2022** | 977,982,789 | 428,296,941 | 557,300,800 | 269,740,126 | 192,477,381 | 2,425,798,032 | |
| Total assets – As at December 31, 2021 | 607,505,709 | 376,636,890 | 503,144,269 | 240,521,118 | 221,405,185 | | 1,949,213,171 |
| **Percentage – As at December 31, 2022 (*)** | 40.32 | 17.66 | 22.97 | 11.12 | 7.93 | 100.00 | |
| Percentage – As at December 31, 2021 (*) | 31.17 | 19.32 | 25.81 | 12.34 | 11.36 | | 100.00 |

*(*) Total assets of each maturity bucket as a percentage of total assets employed by the Bank.*

(ii) Remaining contractual period to maturity of the liabilities and share holders' funds employed by the bank as at the date of Statement of Financial Position is detailed below :

| *As at December 31,* | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | **Total as at December 31, 2022 Rs. '000** | Total as at December 31, 2021 Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Interest-bearing financial liabilities:** | | | | | | | |
| Due to banks | 18,223,393 | 8,946,851 | 2,186,883 | 9,175,000 | 8,156,576 | 46,688,703 | 66,930,131 |
| Securities sold under repurchase agreements | 71,828,324 | 25,819,323 | 78,788 | – | – | 97,726,435 | 151,911,842 |
| Financial liabilities at amortised cost – Due to depositors | 933,851,422 | 695,895,201 | 56,306,773 | 36,388,091 | – | 1,722,441,487 | 1,302,312,599 |
| Financial liabilities at amortised cost – Other borrowings | 7,037,987 | 4,581,753 | 703,600 | 1,393,582 | 2,433,434 | 16,150,356 | 32,587,051 |
| Subordinated liabilities | 28,934,544 | 8,587,502 | – | 14,639,440 | 9,239,481 | 61,400,967 | 38,303,466 |
| **Total interest-bearing liabilities as at December 31, 2022** | **1,059,875,670** | **743,830,630** | **59,276,044** | **61,596,113** | **19,829,491** | **1,944,407,948** | |
| Total Interest-bearing liabilities as at December 31, 2021 | 1,003,811,825 | 492,974,049 | 57,262,530 | 22,051,108 | 15,945,577 | | 1,592,045,089 |
| **Non-interest bearing financial liabilities:** | | | | | | | |
| Due to banks | 18,441,358 | – | – | – | – | 18,441,358 | 6,847,289 |
| Derivative financial liabilities | 2,535,879 | 76,692 | 268,096 | – | – | 2,880,667 | 2,092,198 |
| Financial liabilities at amortised cost – Due to depositors | 191,918,007 | – | – | – | – | 191,918,007 | 140,780,854 |
| **Non-financial liabilities** | | | | | | | |
| Current tax liabilities | 6,118,830 | 18,356,489 | – | – | – | 24,475,319 | 9,294,180 |
| Other liabilities | 20,651,251 | 10,263,179 | 3,804,006 | 2,820,765 | 2,321,372 | 39,860,573 | 33,210,883 |
| Due to subsidiaries | 115,484 | – | – | – | – | 115,484 | 48,699 |
| **Equity** | | | | | | | |
| Stated capital | – | – | – | – | 58,149,621 | 58,149,621 | 54,566,957 |
| Statutory reserves | – | – | – | – | 11,352,858 | 11,352,858 | 10,204,368 |
| Retained earnings | – | – | – | – | 5,592,121 | 5,592,121 | 9,028,265 |
| Other reserves | – | – | – | – | 128,604,076 | 128,604,076 | 91,094,389 |
| **Total non-interest bearing liabilities and equity as at December 31, 2022** | **239,780,809** | **28,696,360** | **4,072,102** | **2,820,765** | **206,020,048** | **481,390,084** | |
| Total non-Interest bearing liabilities and equity as at December 31, 2021 | 165,568,231 | 18,603,946 | 3,170,511 | 1,884,869 | 167,940,525 | | 357,168,082 |
| **Total liabilities and equity – as at December 31, 2022** | **1,299,656,479** | **772,526,990** | **63,348,146** | **64,416,878** | **225,849,539** | **2,425,798,032** | |
| Total liabilities and equity – as at December 31, 2021 | 1,169,380,056 | 511,577,995 | 60,433,041 | 23,935,977 | 183,886,102 | | 1,949,213,171 |
| **Percentage – as at December 31, 2022 (*)** | **53.57** | **31.85** | **2.61** | **2.66** | **9.31** | **100.00** | |
| Percentage – as at December 31, 2021 (*) | 59.99 | 26.25 | 3.10 | 1.23 | 9.43 | | 100.00 |

*(*) Total liabilities and equity of each maturity bucket as a percentage of total liabilities and equity employed by the Bank.*

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### 66.2.2 (b) Non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the reporting date

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled after 12 months from the reporting date:

| *As at December 31,* | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
|---|---|---|
| **Financial assets** | | |
| **Non-derivative financial assets** | | |
| Balances with Central Banks | 3,079,972 | 875,631 |
| Financial assets at amortised cost – Loans and advances to other customers | 392,676,522 | 388,351,016 |
| Financial assets at amortised cost – Debt and other financial instruments | 541,901,422 | 309,346,829 |
| Financial assets measured at fair value through other comprehensive income | 2,838,745 | 219,611,587 |
| **Total** | 940,496,661 | 918,185,063 |
| **Financial liabilities** | | |
| **Non-derivative financial liabilities** | | |
| Securities sold under repurchase agreements | 78,788 | 53,735 |
| Financial liabilities at amortised cost – Due to depositors | 92,694,864 | 32,163,388 |
| Financial liabilities at amortised cost – Other borrowings | 4,530,616 | 12,129,375 |
| Subordinated liabilities | 23,878,921 | 37,269,708 |
| **Total** | 121,183,189 | 81,616,206 |

### 66.2.2 (c) Undiscounted cash flow of financial assets and financial liabilities – Bank

The following table shows the expected undiscounted cash flows for financial assets and financial liabilities as at December 31, 2022:

| *As at December 31, 2022* | Up to 3 months<br>Rs. '000 | 3 to 12 months<br>Rs. '000 | 1 to 3 years<br>Rs. '000 | 3 to 5 years<br>Rs. '000 | More than 5 years<br>Rs. '000 | Total<br>Rs. '000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 149,408,164 | – | – | – | – | 149,408,164 |
| Balances with Central Banks | 40,291,031 | 23,122,503 | 1,870,905 | 1,209,067 | – | 66,493,506 |
| Placements with banks | 83,306,886 | 12,843,959 | – | – | – | 96,150,845 |
| Securities purchased under resale agreements | 1,526,897 | – | – | – | – | 1,526,897 |
| Derivative financial assets | 1,725,935 | 187,116 | – | 6,432,040 | – | 8,345,091 |
| Financial assets recognised through profit or loss – measured at fair value | 19,538,799 | 3,917,471 | 1,952,700 | 494,250 | – | 25,903,220 |
| Financial assets at amortised cost – Loans and advances to other customers | 508,341,068 | 314,036,481 | 296,122,478 | 134,462,520 | 80,297,877 | 1,333,260,424 |
| Financial assets at amortised cost – Debt and other financial instruments | 69,795,202 | 145,582,423 | 433,042,928 | 189,033,833 | 128,656,964 | 966,111,350 |
| Financial assets measured at fair value through other comprehensive income | 82,755,377 | 39,675,232 | 2,076,080 | 561,250 | 723,424 | 125,791,363 |
| **Total financial assets** | 956,689,359 | 539,365,185 | 735,065,091 | 332,192,960 | 209,678,265 | 2,772,990,860 |
| **Financial liabilities** | | | | | | |
| Due to banks | 37,249,363 | 8,946,851 | 2,186,883 | 9,175,000 | 8,156,575 | 65,714,672 |
| Derivative financial liabilities | 2,535,879 | 76,692 | 268,096 | – | – | 2,880,667 |
| Securities sold under repurchase agreements | 73,880,742 | 29,228,507 | 90,479 | – | – | 103,199,728 |
| Financial liabilities at amortised cost – due to depositors | 1,149,550,386 | 749,765,309 | 68,799,168 | 62,074,803 | 5,293 | 2,030,194,959 |
| Financial liabilities at amortised cost – other borrowings | 7,125,093 | 4,827,826 | 969,151 | 2,309,224 | 3,237,045 | 18,468,339 |
| Subordinated liabilities | 29,428,488 | 12,489,469 | 8,362,139 | 22,095,051 | 13,002,303 | 85,377,450 |
| **Total financial liabilities** | 1,299,769,951 | 805,334,654 | 80,675,916 | 95,654,078 | 24,401,216 | 2,305,835,815 |

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| As at December 31, 2021 | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 68,084,097 | – | – | – | – | 68,084,097 |
| Balances with central banks | 39,845,716 | 12,176,561 | 650,505 | 225,126 | – | 52,897,908 |
| Placements with banks | 11,858,941 | – | – | – | – | 11,858,941 |
| Securities purchased under resale agreements | 3,001,958 | – | – | – | – | 3,001,958 |
| Derivative financial assets | 2,034,514 | 881,313 | 18,251 | 311,042 | – | 3,245,120 |
| Financial assets recognised through profit or loss – measured at fair value | 9,432,990 | 7,692,577 | 6,477,941 | 1,298,100 | – | 24,901,608 |
| Financial assets at amortised cost – Loans and advances to other customers | 380,271,862 | 308,776,456 | 265,538,546 | 135,937,878 | 70,913,153 | 1,161,437,895 |
| Financial assets at amortised cost – Debt and other financial instruments | 10,980,792 | 73,994,663 | 164,561,016 | 112,112,000 | 113,091,597 | 474,740,068 |
| Financial assets measured at fair value through other comprehensive income | 38,476,785 | 50,257,331 | 238,394,534 | 58,563,653 | 46,580,770 | 432,273,073 |
| **Total financial assets** | 563,987,655 | 453,778,901 | 675,640,793 | 308,447,799 | 230,585,520 | 2,232,440,668 |
| **Financial liabilities** | | | | | | |
| Due to banks | 43,777,869 | 17,768,093 | 3,941,172 | 5,208,711 | 4,991,742 | 75,687,587 |
| Derivative financial liabilities | 1,353,381 | 609,502 | 129,315 | – | – | 2,092,198 |
| Securities sold under repurchase agreements | 133,583,242 | 21,834,887 | 58,018 | – | – | 155,476,147 |
| Financial liabilities at amortised cost – due to depositors | 969,548,468 | 459,867,397 | 26,171,456 | 9,775,158 | 2,373 | 1,465,364,852 |
| Financial liabilities at amortised cost – other borrowings | 12,881,064 | 7,942,884 | 6,576,688 | 1,928,203 | 5,777,219 | 35,106,058 |
| Subordinated liabilities | 1,092,420 | 2,213,429 | 27,621,931 | 10,661,138 | 7,190,216 | 48,779,134 |
| **Total financial liabilities** | 1,162,236,444 | 510,236,192 | 64,498,580 | 27,573,210 | 17,961,550 | 1,782,505,976 |

### 66.2.3 Liquidity reserves

The table below sets out the components of the Bank's liquidity reserves:

| As at December 31, | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Carrying amount Rs. '000** | **Fair value Rs. '000** | Carrying amount Rs. '000 | Fair value Rs. '000 |
| Balances with central banks | 66,493,499 | 66,493,499 | 52,897,908 | 52,897,908 |
| Balances with other banks | 102,302,920 | 102,302,920 | 37,809,275 | 37,809,275 |
| Coins and notes held | 47,104,381 | 47,104,381 | 30,276,356 | 30,276,356 |
| Unencumbered debt securities issued by sovereigns | 779,714,693 | 530,845,608 | 580,345,153 | 498,220,592 |
| **Total** | 995,615,493 | 746,746,408 | **701,328,692** | **619,204,131** |

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### 66.2.4 Financial assets available to support future funding

The table below sets out the availability of the Bank's financial assets to support future funding.

| *As at December 31, 2022* | Note | Page No. | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|---|---|
| | | | Pledged as collateral | Other | Available as collateral | Other | Total |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 28 | 290 | – | – | 149,393,611 | – | 149,393,611 |
| Balances with central banks | 29 | 291 | – | 35,308,373 | 31,185,126 | – | 66,493,499 |
| Placements with banks | 30 | 291 | – | – | 95,899,645 | – | 95,899,645 |
| Securities purchased under resale agreements | | | – | – | 1,517,308 | – | 1,517,308 |
| Derivative financial assets | 31 | 292 | – | – | 8,345,091 | – | 8,345,091 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | – | – | 24,873,057 | – | 24,873,057 |
| Financial assets at amortised cost – Loans and advances to other customers | 33 | 296 | – | – | 1,130,442,579 | – | 1,130,442,579 |
| Financial assets at amortised cost – Debt and other financial instruments (*) | 34 | 300 | 102,244,891 | – | 623,690,408 | – | 725,935,299 |
| Financial assets measured at fair value through other comprehensive income (*) | 35 | 302 | 9,884,631 | – | 107,171,609 | – | 117,056,240 |
| **Total** | | | 112,129,522 | 35,308,373 | 2,172,518,434 | – | 2,319,956,329 |

| *As at December 31, 2021* | Note | Page No. | Encumbered | | Unencumbered | | |
|---|---|---|---|---|---|---|---|
| | | | Pledged as collateral | Other | Available as collateral | Other | Total |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash and cash equivalents | 28 | 290 | – | – | 68,078,076 | – | 68,078,076 |
| Balances with central banks | 29 | 291 | – | 32,559,843 | 20,338,065 | – | 52,897,908 |
| Placements with banks | 30 | 291 | – | – | 11,584,952 | – | 11,584,952 |
| Securities purchased under resale agreements | | | – | – | 3,000,490 | – | 3,000,490 |
| Derivative financial assets | 31 | 292 | – | – | 3,245,120 | – | 3,245,120 |
| Financial assets recognised through profit or loss – measured at fair value | 32 | 293 | – | – | 23,436,123 | – | 23,436,123 |
| Financial assets at amortised cost – Loans and advances to other customers | 33 | 296 | – | – | 1,014,618,580 | – | 1,014,618,580 |
| Financial assets at amortised cost – Debt and other financial instruments | 34 | 300 | – | – | 369,417,889 | – | 369,417,889 |
| Financial assets measured at fair value through other comprehensive income (*) | 35 | 302 | 170,890,589 | – | 164,572,749 | – | 335,463,338 |
| **Total** | | | 170,890,589 | 32,559,843 | 1,678,292,044 | – | 1,881,742,476 |

*(*) Market value of securities pledged as collateral is considered as encumbered.*

### 66.3 Market risk

Market risk is the risk of losses on or off-balance sheet positions arising out of movements in prices affecting foreign exchange exposures, interest rate instruments, equity/debt instruments and commodity exposures. The Bank monitors market risk in both trading and non-trading portfolios on an ongoing basis.

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### 66.3.1 Exposure to market risk - Trading and non-trading portfolio

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

| *As at December 31, 2022* | | | Market risk measurement | | |
|---|---|---|---|---|---|
| | Note | Page No. | Carrying amount Rs. '000 | Trading portfolios Rs. '000 | Non-trading portfolios Rs. '000 |
| **Assets subject to market risk** | | | | | |
| Cash and cash equivalents | 28 | 290 | 109,917,615 | – | 109,917,615 |
| Balances with central banks | 29 | 291 | 30,548,569 | – | 30,548,569 |
| Placements with banks | 30 | 291 | 95,899,645 | – | 95,899,645 |
| Securities purchased under resale agreements | | | 1,517,308 | – | 1,517,308 |
| Derivative financial assets | 31 | 292 | 8,345,091 | 8,345,091 | – |
| Financial assets recognised through profit or loss – Measured at fair value | 32 | 293 | 24,873,057 | 24,873,057 | – |
| Financial assets at amortised cost – Loans and advances to other customers | 33 | 296 | 1,130,442,579 | – | 1,130,442,579 |
| Financial assets at amortised cost – Debt and other financial instruments | 34 | 300 | 725,935,299 | – | 725,935,299 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | 117,056,240 | – | 117,056,240 |
| **Total** | | | 2,244,535,403 | 33,218,148 | 2,211,317,255 |
| **Liabilities subject to market risk** | | | | | |
| Due to banks | 43 | 325 | 65,130,061 | – | 65,130,061 |
| Derivative financial liabilities | 44 | 325 | 2,880,667 | 2,880,667 | – |
| Securities sold under repurchase agreements | | | 97,726,435 | – | 97,726,435 |
| Financial liabilities at amortised cost – Due to depositors | 45 | 325 | 1,828,161,718 | – | 1,828,161,718 |
| Financial liabilities at amortised cost – Other borrowings | 46 | 326 | 16,150,356 | – | 16,150,356 |
| Subordinated liabilities | 50 | 336 | 61,400,967 | – | 61,400,967 |
| **Total** | | | 2,071,450,204 | 2,880,667 | 2,068,569,537 |

| *As at December 31, 2021* | | | Market risk measurement | | |
|---|---|---|---|---|---|
| | Note | Page No. | Carrying amount Rs. '000 | Trading portfolios Rs. '000 | Non-trading portfolios Rs. '000 |
| **Assets subject to market risk** | | | | | |
| Cash and cash equivalents | 28 | 290 | 40,754,559 | – | 40,754,559 |
| Balances with central banks | 29 | 291 | 19,504,371 | – | 19,504,371 |
| Placements with banks | 30 | 291 | 11,584,952 | – | 11,584,952 |
| Securities purchased under resale agreements | | | 3,000,490 | – | 3,000,490 |
| Derivative financial assets | 31 | 292 | 3,245,120 | 3,245,120 | – |
| Financial assets recognised through profit or loss – Measured at fair value | 32 | 293 | 23,436,123 | 23,436,123 | – |
| Financial assets at amortised cost – Loans and advances to other customers | 33 | 296 | 1,014,618,580 | – | 1,014,618,580 |
| Financial assets at amortised cost – Debt and other financial instruments | 34 | 300 | 369,417,889 | – | 369,417,889 |
| Financial assets measured at fair value through other comprehensive income | 35 | 302 | 335,463,338 | – | 335,463,338 |
| **Total** | | | 1,821,025,422 | 26,681,243 | 1,794,344,179 |
| **Liabilities subject to market risk** | | | | | |
| Due to banks | 43 | 325 | 73,777,420 | – | 73,777,420 |
| Derivative financial liabilities | 44 | 325 | 2,092,198 | 2,092,198 | |
| Securities sold under repurchase agreements | | | 151,911,842 | – | 151,911,842 |
| Financial liabilities at amortised cost – Due to depositors | 45 | 325 | 1,381,652,340 | – | 1,381,652,340 |
| Financial liabilities at amortised cost – Other borrowings | 46 | 326 | 32,587,051 | – | 32,587,051 |
| Subordinated liabilities | 50 | 336 | 38,303,466 | – | 38,303,466 |
| **Total** | | | 1,680,324,317 | 2,092,198 | 1,678,232,119 |

### 66.3.2 Exposure to interest rate risk – Sensitivity analysis

#### 66.3.2 (a) Exposure to interest rate risk – Non-trading portfolio

The possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments and hence expose the Bank to fluctuations of Net Interest Income (NII) give rise to interest rate risk. The Bank's policy is to continuously monitor portfolios and adopt hedging strategies to ensure that interest rate risk is maintained within prudent levels.

The table below analyse the Bank's interest rate risk exposure on financial assets and financial liabilities. The Bank's assets and liabilities are included at carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

| *As at December 31, 2022* | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | Non-sensitive Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 16,544,051 | – | – | – | – | 132,849,560 | 149,393,611 |
| Balances with central banks | 2,885,093 | – | – | – | – | 63,608,406 | 66,493,499 |
| Placements with banks | 74,515,588 | – | – | – | – | 21,384,057 | 95,899,645 |
| Securities purchased under resale agreements | 1,517,308 | – | – | – | – | – | 1,517,308 |
| Financial assets at amortised cost – Loans and advances to other customers | 604,521,842 | 223,583,913 | 134,978,218 | 71,245,328 | 67,257,122 | 28,856,156 | 1,130,442,579 |
| Financial assets at amortised cost – Debt and other financial instruments | 89,547,952 | 94,485,926 | 297,267,724 | 150,916,603 | 93,717,094 | – | 725,935,299 |
| Financial assets measured at fair value through other comprehensive income | 80,088,485 | 33,978,444 | 1,819,164 | 500,156 | 454,058 | 215,933 | 117,056,240 |
| **Total financial assets** | 869,620,319 | 352,048,283 | 434,065,106 | 222,662,087 | 161,428,274 | 246,914,112 | 2,286,738,181 |
| **Financial liabilities** | | | | | | | |
| Due to banks | 18,223,394 | 8,946,851 | 2,186,883 | 9,175,000 | 8,156,575 | 18,441,358 | 65,130,061 |
| Securities sold under repurchased agreements | 71,828,324 | 25,819,323 | 78,788 | – | – | – | 97,726,435 |
| Financial liabilities at amortised cost – Due to depositors | 933,851,422 | 695,895,201 | 56,306,773 | 36,388,091 | – | 191,918,007 | 1,914,359,494 |
| Financial liabilities at amortised cost – Other borrowings | 7,037,987 | 4,581,753 | 703,600 | 1,393,582 | 2,433,434 | – | 16,150,356 |
| Subordinated liabilities | 28,934,545 | 8,587,502 | – | 14,639,440 | 9,239,480 | – | 61,400,967 |
| **Total financial liabilities** | 1,059,875,672 | 743,830,630 | 59,276,044 | 61,596,113 | 19,829,489 | 210,359,365 | 2,154,767,313 |
| **Interest rate sensitivity gap** | (190,255,353) | (391,782,347) | 374,789,062 | 161,065,974 | 141,598,785 | 36,554,747 | 131,970,868 |
| **Cumulative gap** | (190,255,353) | (582,037,700) | (207,248,638) | (46,182,664) | 95,416,121 | 131,970,868 | |

| *As at December 31, 2021* | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | Non-sensitive Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 13,442,860 | – | – | – | – | 54,635,216 | 68,078,076 |
| Balances with central banks | 13,610,416 | – | – | – | – | 39,287,492 | 52,897,908 |
| Placements with banks | 11,584,952 | – | – | – | – | – | 11,584,952 |
| Securities purchased under resale agreements | 3,000,490 | – | – | – | – | – | 3,000,490 |
| Financial assets at amortised cost – Loans and advances to other customers | 539,387,596 | 216,261,635 | 121,660,524 | 54,429,256 | 56,245,305 | 26,634,264 | 1,014,618,580 |
| Financial assets at amortised cost – Debt and other financial instruments | 3,482,239 | 56,588,821 | 131,508,480 | 81,657,967 | 96,180,382 | – | 369,417,889 |
| Financial assets measured at fair value through other comprehensive income | 69,031,895 | 31,161,778 | 148,971,616 | 45,484,693 | 40,363,624 | 449,732 | 335,463,338 |
| **Total financial assets** | 653,540,448 | 304,012,234 | 402,140,620 | 181,571,916 | 192,789,311 | 121,006,704 | 1,855,061,233 |

| As at December 31, 2021 | Up to 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | More than 5 years Rs. '000 | Non-sensitive Rs. '000 | Total Rs. '000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Due to banks | 48,124,365 | 18,805,766 | – | – | – | 6,847,289 | 73,777,420 |
| Securities sold under repurchased agreements | 130,974,904 | 20,883,203 | 53,735 | – | – | – | 151,911,842 |
| Financial liabilities at amortised cost – Due to depositors | 798,029,025 | 450,329,584 | 24,850,880 | 15,818,972 | 13,284,138 | 140,780,854 | 1,443,093,453 |
| Financial liabilities at amortised cost – Other borrowings | 20,947,684 | 4,623,572 | 1,213,704 | 895,691 | 4,906,400 | – | 32,587,051 |
| Subordinated liabilities | 16,030,705 | – | 8,393,840 | 7,914,760 | 5,964,161 | – | 38,303,466 |
| **Total financial liabilities** | 1,014,106,683 | 494,642,125 | 34,512,159 | 24,629,423 | 24,154,699 | 147,628,143 | 1,739,673,232 |
| **Interest rate sensitivity gap** | (360,566,235) | (190,629,891) | 367,628,461 | 156,942,493 | 168,634,612 | (26,621,439) | 115,388,001 |
| **Cumulative gap** | (360,566,235) | (551,196,126) | (183,567,665) | (26,625,172) | 142,009,440 | 115,388,001 | |

### 66.3.2 (b) Exposure to interest rate risk – Non-trading portfolio

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various interest rate scenarios. A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some Interbank Offered Rates (IBORs) with alternative nearly Risk Free Rates (RFRs). As at December 31, 2022, the Bank has a portfolio of financial assets and liabilities indexed to IBORs Some of these IBOR related indexes will either cease to be provided or no longer be representative after June 30, 2023, and the Bank has decided to shift to alternate reference rates, such as – Secured Overnight Financing Rate (SOFR), Sterling Overnight Index Average (SONIA), Euro Short Term Rate (ESTR) during the year 2023. Financial risk attached to the transition is limited to the interest rate risk and impact to the financial statements are insignificant based on the initial assessments carried out by the Bank.

#### Interest rate shocks

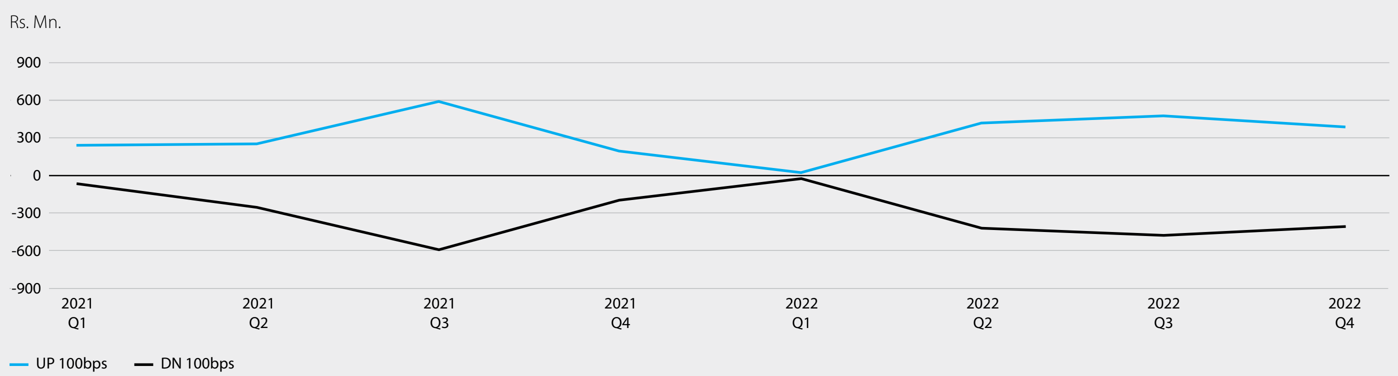
The following table demonstrates the sensitivity of the Bank's Income Statement (net impact) due to change in interest rates by 100bps on rupee denominated assets and liabilities and 25bps on FCY denominated assets and liabilities with all other variables held constant as at the reporting date.

#### Sensitivity of projected net interest income

| Net Interest Income (NII) | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Parallel increase Rs. '000** | **Parallel decrease Rs. '000** | Parallel increase Rs. '000 | Parallel decrease Rs. '000 |
| As at December 31, | 392,200 | (392,737) | 195,232 | (195,288) |
| Average for the period | 369,472 | (369,892) | 258,265 | (200,260) |
| Maximum for the period | 813,181 | (813,616) | 655,218 | (655,219) |
| Minimum for the period | 19,531 | (20,281) | (87,864) | 245,713 |

The impact of changes in interest rates on NII is measured applying interest rate shocks on static balance sheet. In line with the industry practices, interest rate shocks of 100 bps is applied on LKR denominated assets and liabilities and 25 bps is applied on FCY denominated assets and liabilities. The potential impact on the Bank's profitability due to changes in rupee and foreign currency interest rates is evaluated to ensure that the volatilities are prudently managed within the internal tolerance limits.

Graph – 72: **Impact of a rate shock on the net interest income**

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### 66.3.3 Exposure to currency risk – Non-trading portfolio

Currency risk arises as a result of fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Bank has established limits on position by currency and these positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank had significant exposures as at December 31, 2022 and December 31, 2021 and the exposure as a percentage of the total capital funds:

**Foreign exchange position as at December 31, 2022**

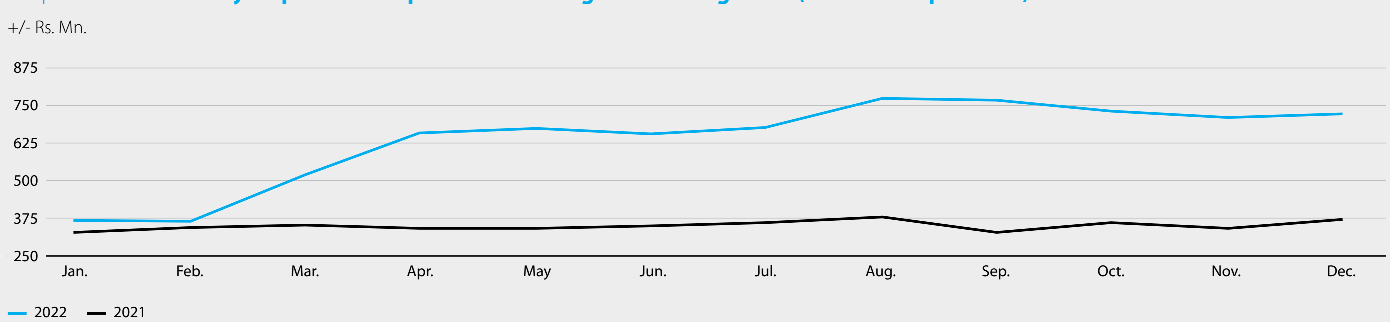
| Currency | Spot | | | Forward | | | Net open position | Net position in other exchange contracts | Overall exposure in respective foreign currency | Overall exposure in Rs. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | |
| | 2 | 3 | 4=2-3 | 5 | 6 | 7=5-6 | 8 | 9 | 10=4+7+8 | 11 |
| | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 |
| United States Dollar | 15,334 | 11,101 | 4,233 | 76 | 3,084 | (3,008) | 9,815 | – | 11,040 | 4,051,506 |
| Great Britain Pound | 135 | 263 | (128) | 70 | – | 70 | 102 | – | 44 | 19,239 |
| Euro | 1,002 | 1,180 | (178) | – | – | – | 110 | – | (68) | (26,430) |
| Japanese Yen | 10,056 | 1,453 | 8,603 | – | 10,000 | (10,000) | 31,377 | – | 29,980 | 83,070 |
| Australian Dollar | 116 | 280 | (164) | – | – | – | 242 | – | 78 | 19,370 |
| Canadian Dollar | 31 | 284 | (253) | – | – | – | 249 | – | (4) | (1,070) |
| Other currencies in USD | 263 | 1,097 | (834) | – | – | – | 1,719 | – | 885 | 324,698 |
| **Total exposure** | | | | | | USD | 12,352 | USD | 12,181 | 4,470,383 |
| **Total capital funds (capital base) as per the audited Basel III computation – Bank** | | | | | | | | | | 198,689,451 |
| **Total exposure as a percentage of total capital funds (%)** | | | | | | | | | | 2.25 |

**Foreign exchange position as at December 31, 2021**

| Currency | Spot | | | Forward | | | Net open position | Net position in other exchange contracts | Overall exposure in respective foreign currency | Overall exposure in Rs. |
|---|---|---|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net | | | | |
| | 2 | 3 | 4=2-3 | 5 | 6 | 7=5-6 | 8 | 9 | 10=4+7+8 | 11 |
| | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 | '000 |
| United States Dollar | 11,424 | 30,554 | (19,130) | 20,320 | 544 | 19,776 | 11,464 | – | 12,110 | 2,421,949 |
| Great Britain Pound | 263 | 356 | (93) | 350 | 200 | 150 | (33) | – | 23 | 6,459 |
| Euro | 1,435 | 1,448 | (13) | – | – | – | (19) | – | (32) | (7,192) |
| Japanese Yen | 6,690 | 419 | 6,271 | – | 5,755 | (5,755) | (859) | – | (343) | (597) |
| Australian Dollar | 25 | 48 | (23) | 99 | – | 99 | (39) | – | 37 | 5,287 |
| Canadian Dollar | 19 | 38 | (19) | – | – | – | (48) | – | (67) | (10,439) |
| Other currencies in USD | 213 | 194 | 19 | – | – | – | 188 | – | 206 | 41,259 |
| **Total exposure** | | | | | | USD | 11,513 | USD | 12,284 | 2,456,726 |
| **Total capital funds (capital base) as per the audited Basel III computation – Bank** | | | | | | | | | | 173,756,083 |
| **Total exposure as a percentage of total capital funds (%)** | | | | | | | | | | 1.41 |

The Bank regularly carries out sensitivity analysis on Net Open Position (NOP) to assess the exposure to Foreign Exchange (FX) Risk due to possible changes in the USD/LKR exchange rate. An appropriate shock based on historical USD/LKR exchange rate is applied on the NOP which is measured against the Board approved threshold limits.

Graph – 73: **Sensitivity Fx position-impact of 1% change in exchange rate (Sri Lanka Operation)**



### 66.3.4 Exposure to equity price risk

Equity price risk arises as a result of any change in market prices and volatilities of individual equities. The Bank conducts mark-to-market calculations on a daily, quarterly and on a need basis to identify the impact due to changes in equity prices.

The table below summarises the impact (both to Income Statement and to equity) due to a change of 10% on equity prices.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Financial assets recognised through profit or loss Rs. '000 | Financial assets at fair value through other comprehensive income Rs. '000 | Total Rs. '000 | Financial assets recognised through profit or loss Rs. '000 | Financial assets at fair value through other comprehensive income Rs. '000 | Total Rs. '000 |
| Market value of equity securities as at December 31, | 2,024,806 | 150,566 | 2,175,372 | 1,596,872 | 396,346 | 1,993,218 |
| **Stress Level** | Impact on Income Statement | Impact on OCI | Impact on equity | Impact on Income Statement | Impact on OCI | Impact on equity |
| Shock of 10% on equity prices (upward) | 202,481 | 15,057 | 217,538 | 159,687 | 39,635 | 199,322 |
| Shock of 10% on equity prices (downward) | (202,481) | (15,057) | (217,538) | (159,687) | (39,635) | (199,322) |

### 66.4 Operational risk

Operational Risk arises due to inadequate or failed internal processes, people and systems or from external events. Operational Risk events which include legal and regulatory implications could lead to financial and reputational losses to the Bank.

The operational risk management framework of the Bank has been defined under the Board approved operational risk management policy. Operational risk is managed by establishing an appropriate internal control system that requires a mechanism for segregation of related responsibilities within the Bank, and a detailed testing and verification of the Bank's overall operational systems, and achieving a full harmony between internal and external systems and establishing a fully independent backup facility for business continuity planning.

### 66.5 Capital management and Pillar III disclosures as per Basel III

#### Objective

The Bank is required to manage its capital, taking into account the need to meet the regulatory requirements as well as the current and future business needs, stakeholder expectations and available options for raising capital.

### 66.5.1 Regulatory capital

Capital Adequacy Ratio (CAR) is calculated based on the CBSL directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 10.00% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 14.00% in relation to total risk weighted assets.

| *As at December 31,* | 2022 Rs. '000 | 2021 Rs. '000 |
|---|---|---|
| **Common equity Tier 1 (CET1) capital after adjustments** | 154,397,407 | 132,375,019 |
| **Total common equity Tier 1 (CET1) capital** | 191,849,110 | 147,698,440 |
| Equity capital (stated capital)/assigned capital | 58,149,621 | 54,566,955 |
| Reserve fund | 11,352,858 | 10,204,369 |
| Published retained earnings/(accumulated retained losses) | 4,755,271 | 3,654,269 |
| Published accumulated other comprehensive income (OCI) | 17,440,828 | (9,597,685) |
| General and other disclosed reserves | 100,150,532 | 88,870,532 |
| Unpublished current year's profit/(losses) 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** | 37,451,703 | 15,323,421 |
| Goodwill (net) | – | – |
| Other intangible assets (net) | 3,563,120 | 1,724,864 |
| Revaluation losses of property, plant and equipment | – | – |
| Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity | 3,587,383 | 3,805,427 |
| Deferred tax assets (net) | 30,301,200 | 9,793,130 |
| **Additional Tier 1 (AT1) capital after adjustments** | – | – |
| **Total Additional Tier 1 (AT1) capital** | – | – |
| Qualifying Additional Tier 1 capital instruments | – | – |
| Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties | – | – |
| **Total adjustments to AT1 capital** | – | – |
| Investment in own shares | – | – |
| Others (Specify) | – | – |
| **Tier 2 capital after adjustments** | 44,292,044 | 41,381,064 |
| **Total Tier 2 capital** | 44,292,044 | 41,381,064 |
| Qualifying Tier 2 capital instruments | 24,457,057 | 24,075,840 |
| Revaluation gains | 4,245,025 | 4,630,226 |
| General provisions/Eligible impairment | 15,589,962 | 12,674,998 |
| Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties | – | – |
| **Total adjustments to Tier 2 capital** | – | – |
| Investment in own shares | – | – |
| Others (specify) | – | – |
| **CET1 capital** | 154,397,407 | 132,375,019 |
| **Total Tier 1 capital** | 154,397,407 | 132,375,019 |
| **Total capital** | 198,689,451 | 173,756,083 |

#### 66.5.2 Capital allocation

The Management monitors the capital adequacy ratio on a regular basis and ensure that it operates within the internal limit set by the Bank. The allocation of capital between specific operations and activities, to a large extent, driven by optimisation of return on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required level by the regulator.

#### 66.5.3 Pillar III disclosures as per Basel III

Disclosures under these requirements mainly include the regulatory capital requirements and liquidity, risk weighted assets, discussion on adequacy to meet current and future capital requirements of banks and linkages between financial statements and regulatory exposures. It is required to disclose the templates specified by the Central Bank of Sri Lanka as per Basel III – Minimum disclosure requirements with effective from July 01, 2017. Refer Annex 2 on pages 411 to 423.

## 67. Repurchase and reverse repurchase transactions in scripless treasury bonds and scripless treasury bills

The following additional information on repurchase and reverse repurchase transactions are disclosed as required by the "Registered Stock and Securities Ordinance and Local Treasury Bills Ordinance Direction No. 1 of 2019", issued by the Central Bank of Sri Lanka (CBSL).

### 67.1 Value of securities allocated for repurchase transactions

| | BANK | |
|---|---|---|
| *As at December 31,* | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 |
| Market value of securities allocated for repurchase transactions | 112,129,521 | 170,890,589 |
| Market value of securities received for reverse repurchase transactions | 2,048,509 | 3,312,794 |

### 67.2 Haircuts for repurchase and reverse repurchase transactions

Minimum haircuts applicable for each maturity bucket as at December 31, 2022 are given below.

| Remaining term to maturity of the eligible security | Minimum haircut (%) | |
|---|---|---|
| | **Repurchase transactions** | **Reverse repurchase transactions** |
| Up to 1 year | 4.00 | 4.00 |
| More than 1 year and up to 3 years | 6.00 | 6.00 |
| More than 3 years and up to 5 years | 8.00 | 8.00 |
| More than 5 years and up to 8 years | 10.00 | 10.00 |
| More than 8 years | 12.00 | 12.00 |

### 67.3 Penalties imposed on the Bank for non-compliance

No penalties have been imposed on the Bank for non compliance with the above mentioned Direction No. 1 of 2019 issued by the CBSL during the years ended December 31, 2022 & 2021.

## 68. Events after the reporting period

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below.

### First and final Scrip Dividend for 2022

The Bank did not declare cash dividends during the year 2022 (for the year ended December 31, 2022), in conformity with the restrictions imposed by the Central Bank of Sri Lanka on payment of cash dividends for the financial year 2022, as per the instructions given in the Banking Act Direction No 2 of 2022, dated May 6, 2022, on "Restrictions on Discretionary Payments of Licensed Banks".

Since the Financial Statements for the year 2022 are finalised and audited by the Bank's external auditors, the Board of Directors of the Bank has now recommended the payment of a first and final dividend of Rs. 4.50 per share to be satisfied in the form of issue and allotment of new shares for both voting and non-voting ordinary shareholders' of the Bank for the year ended December 31, 2022.

The above first and final dividend recommended by the Board of Directors is to be approved at the forthcoming Annual General Meeting to be held on March 30, 2023.

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# SUPPLEMENTARY INFORMATION

# Annex 1: Compliance with Governance Directions and Code

## Annex 1.1: Compliance with Banking Act Direction

### The Banking Act Direction No. 11 of 2007 and subsequent amendments thereto on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka (the Direction)

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| **3 (1)** | **Responsibilities of the Board** | |
| **3 (1) (i)** | **The Board has strengthened the security and the soundness of the Bank in the following manner:** | |
| **a.** | **Setting strategic objectives and corporate values**<br>The Bank's strategic objectives and corporate values are determined by the Board as set out on pages 52 to 74 and Pages 154 to 167. These are communicated to all levels of employees through structured meetings and reinforced monthly at team meetings which review performance vis-à-vis strategic goals. The corporate values are included in the Code of Conduct and Business Ethics which is communicated to all employees via hard copy and Bank's intranet, through orientation programmes and reinforced at meetings. | ✓ |
| **b.** | **Approving overall business strategy including risk policy and management**<br>The Board provided direction and guidance for preparation of the five year Corporate Strategic Plan from 2022-2026 which was approved by the Board after discussing related issues in detail with the Corporate Management. It is aligned to the overall Risk Strategy of the Bank through involvement of the Independent Risk Management Committee. The risk appetite of the Bank is embedded throughout the corporate plan in allocation of capital, adoption of risk matrix to measure the risk levels and in defining key performance indicators which include both quantitative and qualitative criteria. Additionally, governance and compliance are embedded into the Bank's Risk Management Policy Framework and included in the strategic goals.<br>The Bank's Strategic Plan for 2023-2027 was approved on December 20, 2022 by the Board at a special Board meeting with the presence of all the members of Corporate Management. | ✓ |
| **c.** | **Risk management**<br>The BIRMC is tasked with approving the Bank's Risk Policy, defining the risk appetite, identifying principal risks, setting governance structures and implementing systems to measure, monitor and manage the principal risks. *"Risk Governance and Management"* on pages 203 to 228 and the "Report of the BIRMC" on pages 172 to 174 provide further insights on risk management policies and processes of the Bank. | ✓ |
| **d.** | **Communication with all stakeholders**<br>The Board has approved and implemented the following communication policies with stakeholders:<br>• **Shareholders** – The Shareholder Communication Policy of the Bank explicitly provides for effective and timely communication to shareholders of material matters and performance. Interim Financial Statements are made available to shareholders within 45 days for the first three quarters and within 60 days for the last quarter from the end of the relevant quarter and a press release is issued providing a review of the Bank's performance on a quarterly basis. Performance of the Bank is set out in the Annual Report of the Bank which is circulated to shareholders 15 working days prior to the Annual General Meeting (AGM).<br>The AGM is the key forum for contact with shareholders and the Bank has a history of well attended AGMs where shareholders take an active role in exercising their rights. Details of attendance of the shareholders at AGMs during the past five years is given in the Table 47 on page 167.<br>The AGM 2021 was held by virtual means in year 2022, with the use of a digital platform owing to COVID-19 pandemic.<br>Additionally, the "Investors" page on the Bank's website contains the Interim Financial Statements and Annual Reports together with key disclosures on risk management.<br>The Bank also provides information to equity analysts to facilitate high quality information in research reports which are made available to investors by stockbrokers.<br>• **Customers** – Customers include, *inter alia*, depositors and borrowers. The Bank's Customer Complaint Handling Policy has been printed in all three languages and disseminated to all customer contact points of the Bank. This document outlines the policy set out by the Bank to handle customer complaints, provides contact numbers to reach the Bank as well as the Financial Ombudsman. There is a 24-hour trilingual customer hotline set up for this purpose and reports are reviewed by both the EIRMC and BIRMC.<br>• **Staff** – Employees and representatives of the trade unions are given unrestricted access to the Management to discuss their concerns. The Deputy General Manager - Human Resource Management coordinates communication between the Board and the employees. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
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| e. | **Internal control system and management information systems**<br>The Board is assisted in this regard by the BAC who reviews the adequacy and the integrity of the Bank's internal control system and management information system. The BAC has reviewed reports from the Internal Audit Department and the External Auditors in carrying out this function and also reviewed management responses on same, during the year. | ✓ |
| f. | **Key Management Personnel (KMP)**<br>KMP are defined in the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures", as the persons who significantly influence policy, direct activities and exercise control over business activities, operations and risk management. All appointments of designated KMP are recommended by the BNC and approved by the Board.<br>For financial reporting purposes, the Board of Directors of the Bank (including Executive and Non-Executive Directors) is considered as KMP of the Bank.<br>Further, for corporate governance reporting and monitoring purposes, the Bank has also included all members of the Corporate Management into the category of KMP. | ✓ |
| g. | **Define areas of authority and key responsibilities for Directors and KMP**<br>The Board Charter sets out the matters specifically reserved for Board, defining the areas of authority and key responsibilities of the Board of Directors. Areas of authority and key responsibilities for members of the Corporate Management are stated in the job descriptions of each member. | ✓ |
| h. | **Oversight of affairs of the Bank by KMP**<br>The Board reviews the performance of the Bank vis-à-vis the strategic plan and receives reports from its Committees on financial reporting, internal control, risk management, changes in KMP and other relevant matters delegated to the Committees.<br>Additionally, 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. | ✓ |
| i. | **Assess effectiveness of own governance practices**<br>Completed Board evaluation forms were received from all Board members for 2022 for review and the responses were discussed at a BNC meeting and at a subsequent Board meeting. Matters of concern noted are followed-up and improved upon during the year to continuously improve the governance practices of the Bank. | ✓ |
| j. | **Succession plan for KMP**<br>There is a formal succession plan in place with named successors for KMP together with development plans to ensure their readiness. | ✓ |
| k. | **Regular meetings with KMP**<br>Progress towards corporate objectives is a regular agenda item for the Board and members of the Corporate Management are regularly involved in the Board level discussions on the same. Additionally, they make key agenda items or are called in for discussions at the meetings of the Board and presentations on its Committees on policy and other matters relating to their areas on a regular basis. | ✓ |
| l. | **Regulatory environment and maintaining an effective relationship with regulator**<br>Directors are briefed about regulatory developments at Board meetings by the KMP to facilitate effective discharge of their responsibilities. Members of the BAC and the BIRMC are also briefed on regulatory developments at their meetings by the Heads of Internal Audit, Risk, and Compliance. Board members attend the Director Forums arranged by the CBSL as well. | ✓ |
| m. | **Hiring External Auditors**<br>The Board has adopted a policy of rotation of auditors, once in every five years, in keeping with the principles of good corporate governance. At the end of the five-year period, quotations are called from suitable audit firms, prior to the recommendation of new auditors as per the rotation policy. In addition, External Auditors submit a statement annually confirming their independence as required by Section 163 (3) of the Companies Act No. 07 of 2007 (as amended) in connection with external audit.<br>Messrs Ernst & Young will be completing five consecutive years of external audit with the audit for the financial year ended December 31, 2022. Although the Bank used to change the external auditor every five years, considering the fact that the CBSL is conducting an Asset Quality Review on the Banking Sector in the country and Messrs KPMG has been selected to carry out this review on the Bank, taking into account their independence, the Board decided to retain Messrs Ernst & Young as the external auditor of the Bank for one more year. | ✓ |
| 3 (1) (ii) | **Appointment of Chairman and CEO and defining and approving their functions and responsibilities**<br>Positions of the Chairman and the Managing Director/Chief Executive Officer (CEO) are separated in the Board Charter to maintain a balance of power. Further, functions and responsibilities of the Chairman and the CEO are defined and approved in line with Section 3 (5) of the Direction as further explained on pages 392 and 393. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
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| **3 (1) (iii)** | **Regular Board meetings**<br><br>Board meetings are held each month on a regular basis and special meetings are scheduled as and when the need arises at which Directors present at the meeting actively participate in deliberating matters set before the Board. Attendance at Board meetings is given on pages 159 and 160 together with the number of meetings of the Board. The Bank has minimised obtaining approval via circular resolutions and it is carried out only on an exceptional basis and such resolutions are ratified by the Board at the next meeting. | ✓ |
| **3 (1) (iv)** | **Arrangements for Directors to include proposals in the agenda**<br><br>Notice of Meeting is circulated two weeks prior to the meeting and Directors may submit proposals for inclusion in the agenda on discussion with the Chairman on matters relating to the business of the Bank. | ✓ |
| **3 (1) (v)** | **Notice of Meetings**<br><br>Notice of Meetings, together with the agenda and Board papers for the Board meetings are circulated to the Directors seven days prior to the meeting providing Directors adequate time to attend and submit any urgent proposals. | ✓ |
| **3 (1) (vi)** | **Directors' attendance**<br><br>The Directors are apprised of their attendance in accordance with the Direction. Details of the Directors' attendance are set out on page 160. No Director has been absent from three consecutive meetings. | ✓ |
| **3 (1) (vii)** | **Appointment and setting responsibilities of the Company Secretary**<br><br>The Board appoints and sets responsibilities of the Company Secretary in accordance with the Companies Act, Banking Act Directions, and the Articles of Association of the Bank under advisement of the BNC. Refer "*Role of Company Secretary*" on page 164 for further details. | ✓ |
| **3 (1) (viii)** | **Directors' access to advice and services of the Company Secretary**<br><br>All Board members have full access, to the advice and services of the Company Secretary to ensure that proper Board procedures are followed and all applicable rules and regulations are complied with. | ✓ |
| **3 (1) (ix)** | **Maintenance of Board minutes**<br><br>Company Secretary maintains the minutes of the Board meetings and circulates same to all Board members after review by the CEO and the Chairman. The minutes are reviewed and approved at the next Board meeting after incorporating any amendments/ inclusions proposed by other Directors.<br><br>Additionally, the Directors have access to past Board papers and minutes through a secure electronic link. | ✓ |
| **3 (1) (x)** | **Maintaining minutes with sufficient details to serve as a reference for regulators and supervisory authorities**<br><br>The minutes of the meetings include:<br>(a) a summary of data and information used by the Board in its deliberations;<br>(b) the matters considered by the Board;<br>(c) the fact-finding discussions and the issues of contention or dissent;<br>(d) the testimonies and confirmations of relevant executives with regard to the Board's strategies and policies and adherence to relevant laws and regulations;<br>(e) matters regarding the risks to which the Bank is exposed and an overview of the risk management measures including reports of the BIRMC;<br>(f) the decisions and Board resolutions including reports and minutes of all Board Committees; and<br>(g) the actions to be taken by the KMP. | ✓ |
| **3 (1) (xi)** | **Directors' ability to seek independent professional advice**<br><br>Directors can obtain independent professional advice, as and when necessary, in discharging their responsibilities according to a procedure approved by the Board. This function is coordinated by the Company Secretary. | ✓ |
| **3 (1) (xii)** | **Dealing with conflicts of interest**<br><br>The Directors make declarations of their interests at appointment, annually and whenever there is a change in same. A quarterly report is sent to the Board on possible areas of conflict (if any). Directors withdraw from the meeting, abstain from participating in the discussions, voicing their opinion or approving in situations where there is a conflict of interest.<br><br>Additionally, such Director's presence is disregarded in counting the quorum in such instances. Key appointments of the Directors in other entities are indicated in their profiles appearing on pages 140 to 145 and *"Directors' Interest in Contracts with the Bank"* as disclosed on pages 201 and 202. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| 3 (1) (xiii) | **Formal schedule of matters reserved for Board decision**<br>The Board has put in place systems and controls to facilitate the effective discharge of Board functions.<br>Pre set agenda of meetings ensures the direction and control of the Bank are firmly under Board's control and authority in line with regulatory codes, guidelines and international best practice. | ✓ |
| 3 (1) (xiv) | **Inform Central Bank on probable solvency issues**<br>The Bank is solvent and no situations have arisen to challenge its solvency. A Board approved procedure is in place to inform the Director of Bank Supervision prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payments to its depositors and other creditors. | ✓ |
| 3 (1) (xv) | **Capital adequacy**<br>The Board monitors capital adequacy and other prudential measures to ensure compliance with regulatory requirements, and the Bank's defined risk appetite. The Bank is in compliance with the minimum capital adequacy requirements.<br>Refer Annex: 2 Basel III- Disclosures under Pillar III as per Banking Act Direction No. 01 of 2016 on pages 411 to 423 | ✓ |
| 3 (1) (xvi) | **Publish Corporate Governance Report in this Annual Report**<br>This Report forms part of the Corporate Governance Report of the Bank which is set out on pages 154 to 167. | ✓ |
| 3 (1) (xvii) | **Self-assessment of Directors**<br>The Bank has adopted a system of self-assessment, to be undertaken by each Director, annually. Each member of the Board carried out a self-assessment of his/her own effectiveness as an individual as well as the effectiveness of the Board as a whole. Further, each Director carries out an assessment of "fitness and propriety" to serve as a Director. | ✓ |
| 3 (2) | **Board Composition** | |
| 3 (2) (i) | **Number of Directors**<br>As per the Direction and Articles of Association of the Bank the number of Directors should not be less than seven and not more than thirteen. The Bank's Board comprised of Eleven Directors as at December 31, 2022. | ✓ |
| 3 (2) (ii) | **Period of service of a Director**<br>The period of service of a Director is limited to nine years excluding the Executive Directors as per the Direction issued to Licensed Commercial Banks. Details of their tenures of service are given on page 160. | ✓ |
| 3 (2) (iii) | **Board balance**<br>There are two Executive Directors and nine NEDs which is compliant with the requirement to limit the number of Executive Directors to one-third of the total. | ✓ |
| 3 (2) (iv) | **Independent NEDs**<br>The Board has nine Independent Directors which is well above the regulatory requirement to have at least one third of the total number of Directors, to be INDEs to satisfy the criteria for determining independence. | ✓ |
| 3 (2) (v) | **Alternate Directors appointed to represent an Independent Director**<br>There are no Alternate Directors on the Board of the Bank. | ✓ |
| 3 (2) (vi) | **Criteria for Non-Executive Directors**<br>NEDs are persons with proven track records and necessary skills and experience to bring independent judgement to bear on, issues of strategy, performance and resources.<br>Directors nominate names of eminent professionals or academics from various disciplines to the BNC who peruse the profiles and recommend suitable candidates to the Board. | ✓ |
| 3 (2) (vii) | **More than half the quorum to comprise Non-Executive Directors**<br>This requirement is strictly observed and it is noteworthy that the majority of the Board are NEDs. | ✓ |
| 3 (2) (viii) | **Identify Independent Non-Executive Directors in communications and disclose categories of Directors in this Annual Report**<br>The Independent NEDs are expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The composition of the Board, by category of Directors, including the names of the Chairman, Executive and Non-Executive Directors and Independent and Non-Independent Directors are given on page 160. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| 3 (2) (ix) | **Formal and transparent procedure for appointments to the Board**<br><br>The Board has established a BNC, Terms of Reference of which comply with the specimen given in the Code of Best Practice on Corporate Governance. The Board has also developed a succession plan together with the BNC to ensure the orderly succession of appointments to the Board. | ✓ |
| 3 (2) (x) | **Election of Directors filling casual vacancies**<br><br>All Directors appointed to the Board are subject to election by shareholders at the first AGM after their appointment. | ✓ |
| 3 (2) (xi) | **Communication of reasons for removal or resignation of Director**<br><br>Resignations of Directors and the reasons are promptly informed to the regulatory authorities and shareholders as per CSE's Listing rules together with a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders. | ✓ |
| 3 (2) (xii) | **Prohibition of Directors or employees of a Bank becoming a Director of another bank**<br><br>The Board and the BNC take into account this requirement in their deliberations when considering appointments of Directors.<br><br>None of the Directors are directors or employees of any other banks registered in Sri Lanka. Ms Lee, Director of the Bank, is also on the Board of Directors of DBS Group Holdings Ltd., Singapore and DBS Bank Ltd., Singapore. The CBSL has communicated that it has no objection to the said appointment. | ✓ |
| **3 (3)** | **Criteria to assess fitness and propriety of Directors** | |
| 3 (3) (i) | **Age of Director should not exceed 70**<br><br>There are no Directors who are over 70 years of age. | ✓ |
| 3 (3) (ii) | **Directors should not be Directors of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.**<br><br>No Director holds directorships in excess of 20 companies/entities/institutions inclusive of subsidiaries or associates of the Bank. | ✓ |
| **3 (4)** | **Management functions delegated by the Board** | |
| 3 (4)(i) | **Directors shall carefully study and clearly understand the delegation arrangements.** | ✓ |
| 3 (4) (ii) | **Extent of delegation should not hinder the Board's ability to discharge its functions** | ✓ |
| 3 (4) (iii) | **Review delegation arrangements periodically to ensure relevance to operations of the Bank**<br><br>The Board reviews and approves the delegation arrangements of the Bank annually and ensures that the extent of delegation addresses the business needs of the Bank whilst enabling the Board to discharge their functions effectively. Consequently, the Board takes time to study and understand the delegation arrangements as referred to in the Section 3 (4) (i) and (ii) above. | ✓ |
| **3 (5)** | **The Chairman and Chief Executive Officer** | |
| 3 (5) (i) | **Separation of roles**<br><br>There is a clear separation of duties between the roles of the Chairman and the CEO, thereby preventing unfettered powers for decision-making being vested with one person. | ✓ |
| 3 (5) (ii) | **A Non-Executive Independent Director as the Chairman or if not independent, designation of an Independent Director as the Senior Director**<br><br>The Chairman is an Independent Non-Executive Director. | ✓ |
| 3 (5) (iii) | **Disclosure of identity of Chairman and CEO and any relationships with the Board members**<br><br>The identity of the Chairman and the CEO are disclosed in the Annual Report on pages 140 and 141 on Board of Directors and Profiles.<br><br>The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO. Similarly, no relationships prevail among the other members of the Board. | ✓ |
| 3 (5) (iv) | **Chairman to provide leadership to the Board**<br><br>Board approved list of functions and responsibilities of the Chairman includes, "Providing leadership to the Board" as a responsibility of the Chairman. The Board's Annual Assessment Form includes an area to measure the "Effectiveness of the Chairman in facilitating the effective discharge of Board functions".<br><br>All key and appropriate issues are discussed by the Board on a timely basis. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
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| **3 (5) (v)** | **Responsibility for agenda lies with the Chairman but may be delegated to the Company Secretary**<br>The Company Secretary draws up the agenda for the meetings in consultation with the Chairman. | ✓ |
| **3 (5) (vi)** | **Ensure that Directors are properly briefed and provided adequate information**<br>The Chairman ensures that the Board is sufficiently briefed and informed regarding the matters arising at Board meetings.<br>The following procedures ensure that:<br>(a) Circulation of Board papers including minutes of the previous meeting, seven days prior to meeting<br>(b) Clarification of matters by KMP when required | ✓ |
| **3 (5) (vii)** | **Encourage active participation by all Directors and lead in acting in the interests of the Bank**<br>This requirement is addressed in the list of functions and responsibilities of the Chairman approved by the Board. | ✓ |
| **3 (5) (viii)** | **Encourage participation of Non-Executive Directors and relationships between Non-Executive and Executive Directors**<br>Nine members of the Board are NEDs which creates a conducive environment for active participation by the NEDs.<br>Additionally, NEDs chair the Committees of the Board providing further opportunity for active participation. | ✓ |
| **3 (5) (ix)** | **Refrain from direct supervision of KMP and executive duties**<br>The Chairman does not get involved in the supervision of KMP or any other executive duties. | ✓ |
| **3 (5) (x)** | **Ensure effective communication with shareholders**<br>The Bank historically has active shareholder participation at the AGM. At the AGM the shareholders are given the opportunity to take up matters for which clarification is needed. These matters are adequately clarified by the Chairman and/or CEO and/or any other officer. The AGM 2021 was held by virtual means in the year 2022, with the use of a digital platform owing to COVID-19 pandemic.<br>The shareholder participation at AGMs is given on page 167 of the *"Annual Corporate Governance Report".* | ✓ |
| **3 (5) (xi)** | **CEO functions as the apex executive in charge of the day-to-day operations**<br>The day-to-day operations of the Bank have been delegated to the CEO by the Board of Directors. | ✓ |
| **3 (6)** | **Board appointed committees** | |
| **3 (6) (i)** | **Establishing Board Committees, their functions and reporting**<br>The Board has established nine committees of which five are mandatory with the remainder appointed to meet the business needs of the Bank. All the Board Committees of the Bank have its own written Terms of Reference. Each committee has a Secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Reports of the Board Committees are given on pages 168 to 187.<br>The Chairpersons of the Committees are available at the AGM to clarify any matters that may be referred to them by the Chairman. | ✓ |
| **3 (6) (ii)** | **Board Audit Committee(BAC)** | ✓ |
| **a.** | Chairman of the committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit<br>Chairman of the Committee, Mr Senanayake is an Independent Non-Executive Director with qualifications and experience in accountancy. Mr Senanayake's profile is given on page 143. | |
| **b.** | **Committee to comprise solely of Non-Executive Directors**<br>All members of the BAC are Independent Non-Executive Directors. | ✓ |
| **c.** | **Board Audit Committee functions**<br>In accordance with the Terms of Reference, the BAC has made the following recommendations:<br>(i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;<br>(ii) the implementation of the Central Bank Guidelines issued to Auditors from time to time;<br>(iii) the application of the relevant Accounting Standards; and<br>(iv) the service period, audit fee and any resignation or dismissal of the Auditor.<br>The BAC 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. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
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| d. | **Review and monitor External Auditor's independence and objectivity and the effectiveness of the audit processes**<br>The Board has adopted a policy of rotation of Auditors, once in every five years, in keeping with applicable standards and best practices.<br>Please refer Section 3(1)(i)m on "Hiring External Auditors" regarding retaining Messrs Ernst & Young for one more year, as the external auditor. | ✓ |
| e. | **Provision of non-audit services by External Auditor**<br>Following action is taken prior to the assignment of non-audit services to External Auditors by the Bank:<br>(i) Considered whether the skills and experience of the audit firm make it a suitable provider of non-audit services<br>(ii) If the Management is of the view that the independence is likely to be impaired with the assignment of any non-audit services to External Auditors, no assignment will be made to obtain such services.<br>(iii) Further, relevant information is obtained from External Auditors to ensure that their independence is not impaired, as a result of providing any non-audit services.<br>Assigning such non-audit services to External Auditors is discussed at BAC meetings and required approval is obtained to that effect. | ✓ |
| f. | **Determines scope of audit**<br>The Committee discussed the Audit Plan, nature and scope of the audit with External Auditors to ensure that it includes:<br>(i) an assessment of the Bank's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting; and<br>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations.<br>(iii) the co-ordination between the audit firms, when more than one audit firm is involved within the Group. | ✓ |
| g. | **Review financial information of the Bank**<br>The BAC reviews 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 judgements contained therein. The review focuses on the following:<br>(i) major judgemental areas;<br>(ii) any changes in accounting policies and practices;<br>(iii) significant adjustments arising from the audit;<br>(iv) the going concern assumption; and<br>(v) compliance with relevant Accounting Standards and other legal requirements.<br>The BAC makes their recommendations to the Board on the above on a quarterly basis. | ✓ |
| h. | **Discussions with External Auditor on interim and final audits**<br>The BAC discusses issues, problems and reservations arising from the interim and final audits with the External Auditor.<br>The Committee met on two occasions with the External Auditor, without the presence of executive staff of the Bank. | ✓ |
| i. | **Review of management letter and Bank's response**<br>The BAC has reviewed the External Auditor's Management Letter and the Management's response thereto. | ✓ |
| j. | **Review of internal audit function**<br>The Annual Audit Plan prepared by the Internal Audit Department is submitted to the BAC for approval. This Plan covers the scope, functions and resource requirements relating to the Audit Plan and has the necessary authority to carry out its work.<br>The services of five audit firms have been obtained to assist the Internal Audit Department to carry out the audit function. Prior approval of the BAC has been obtained in this regard.<br>The Committee reviewed the reports submitted by Internal Audit Department and ensures that appropriate action is taken on the recommendations.<br>The Deputy General Manager - Management Audit (DGM-MA), who leads the Internal Audit Department, reports directly to the BAC and his performance appraisal is reviewed by the BAC.<br>The BAC is to recommend any appointment, terminations/resignations of the head, senior internal audit staff members and outsourced service providers to the internal audit function.<br>The above processes ensure that audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.<br>Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the DGM-MA and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
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| k. | **Internal investigations**<br>The committee shall consider the major findings of internal investigations and management's responses thereto. | ✓ |
| l. | **Attendees at Board Audit Committee meeting**<br>The Chief Financial Officer, DGM-MA and a representative of the External Auditors normally attend meetings. Other Board members and Managing Director/CEO may also attend meetings upon the invitation of the Committee.<br>The Committee met with the External Auditors without the Executive Directors being present on two occasions during the year. Refer the *"Report of the BAC"* given on pages 168 to 171. | ✓ |
| m. | **Explicit authority, resources and access to information**<br>The Terms of Reference for the BAC includes:<br>(i) explicit authority to investigate into any matter within its Terms of Reference;<br>(ii) the resources which it needs to do so;<br>(iii) full access to information; and<br>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.<br>Refer the "Report of the BAC" on pages 168 to 171. | ✓ |
| n. | **Regular meetings**<br>The BAC has scheduled regular quarterly meetings and additional meetings are scheduled when required. Accordingly, the Committee met eight times during the year. Members of the BAC are served with due notice of issues to be discussed and the conclusions in discharging its duties and responsibilities are recorded in the minutes of the meetings maintained by the Secretary of the BAC. | ✓ |
| o. | **Disclosure in Annual Report**<br>The "Report of the BAC" on pages 168 to 171 includes the following:<br>(i) details of the activities of the BAC;<br>(ii) the number of BAC meetings held in the year; and<br>(iii) details of attendance of each individual Director at such meetings. | ✓ |
| p. | **Maintain minutes of meetings**<br>DGM-MA serves as the Secretary for the BAC and maintains minutes of the Committee meetings | ✓ |
| q. | **Whistle-blowing policy and relationship with External Auditor**<br>The Bank has a whistle-blowing policy which has been reviewed and approved by the BAC and the Board of Directors. Board's responsibility towards encouraging communication on any non-compliance and unethical practices are addressed in the Board Charter.<br>A process is in place and proper arrangements are in effect to conduct a fair and independent investigation and appropriate follow-up action regarding any concerns raised by the employees of the Bank, in relation to possible improprieties in financial reporting, internal controls or other matters.<br>The BAC is the key representative body for overseeing the Bank's relations with the External Auditor and meets the External Auditor on a regular basis to discharge this function. | ✓ |
| 3 (6) (iii) | **Board Human Resources and Remuneration Committee (BHRRC)**<br>**Charter of the Committee**<br>The BHRRC is responsible for:<br>(a) determining the remuneration policy relating to Directors, CEO and KMP;<br>(b) setting goals and targets for the Directors, CEO and KMP; and<br>(c) evaluating performance of the CEO and KMP against agreed targets and goals and determining the basis for revising remuneration, benefits and other payments of performance-based incentives.<br>(d) The CEO attends all meetings of the Committee, except when matters relating to the CEO are being discussed.<br>Refer the *"Report of the BHRRC"* on pages 177 and 178. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
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| **3 (6) (iv)**<br>**a.** | **Board Nomination Committee(BNC)**<br>**Appointment of Directors, CEO and KMP**<br>The Committee has developed and implemented a procedure to appoint new Directors, CEO and the members of the Corporate Management of the Bank.<br>The Committee has also developed a proactive process for planning and assessment of candidates for the succession of Executive and Non-Executive Directors, CEO and KMP appointments within the Bank, its Subsidiaries, and Associate (the Group).<br>The Committee also oversee appointment and composition of the Sharia Supervisory Board (SSB or Sharia Board) of the Bank's Islamic Banking Unit (IBU).<br>The Committee is chaired by the Chairman of the Bank and comprises three other NEDs, who are independent. The CEO may be present at meetings by invitation. Refer the "Report of the BNC" on pages 175 and 176. | ✓ |
| **b.** | **Re-election of Directors**<br>The Committee makes recommendations regarding the re-election of current Directors, considering the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities also considering the requirements of the Articles of Association. Refer the "Statement of Compliance" given on pages 188 to 194. | ✓ |
| **c.** | **Eligibility criteria for appointments to key managerial positions including CEO**<br>The Committee sets the eligibility criteria to be considered, including qualifications, experience and key attributes, for appointment or promotion to key managerial positions including the position of the CEO. The Committee considers the applicable statutes and guidelines in setting the criteria. | ✓ |
| **d.** | **Fit and proper persons**<br>The Committee obtains annual declarations from Directors, CEO and COO to ensure that they are fit and proper persons to hold office as specified in the criteria given in the Section 3 (3) of this Direction and as set out in the statutes.<br>Further, the BNC obtains declarations from KMP to ensure that they too are fit and proper persons to hold office as specified in the said Direction. | ✓ |
| **e.** | **Succession plan and new expertise**<br>The Committee has developed a succession plan for the Directors and KMP. The need for new expertise may be identified by the Board or its Committees and brought to the attention of the BNC who will take appropriate action. | ✓ |
| **f.** | **Committee to be chaired by an independent Director**<br>The Committee was chaired by an Independent Non-Executive Director and the CEO attended the meetings by invitation. | ✓ |
| **3 (6) (v)**<br>**a.** | **Board Integrated Risk Management Committee (BIRMC)**<br>Composition of BIRMC<br>The Committee comprises NEDs, the Managing Director/CEO and the Chief Risk Officer (CRO) who serves as a non-board member. Other KMP supervising credit, market, liquidity, operational, and strategic risks are invited to attend the meetings on a regular basis. | ✓ |
| **b.** | **Risk assessment**<br>The Committee has approved the policies on Credit Risk Management, Market Risk Management and Operational Risk Management, which provide a framework for management and assessment of risks. Further, Internal Capital Adequacy Assessment Process is being reviewed by the Committee annually. Accordingly, monthly information on pre-established risk indicators is reviewed by the Committee in discharging its responsibilities as per the Terms of Reference. | ✓ |
| **c.** | **Review of management level committees on risk**<br>The Committee shall review the adequacy and effectiveness of all management level Committees such as Credit Policy Committee, Asset and Liability Management Committee (ALCO), Executive Integrated Risk Management Committee (EIRMC) etc., to assess their adequacy and effectiveness in addressing specific risks and managing them within the quantitative and qualitative risk limits specified by the Board of Directors. These limits are set out in the Risk Appetite Statement of the Bank and are reviewed by the Board on a regular basis. | ✓ |
| **d.** | **Corrective action to mitigate risks exceeding prudential levels**<br>Actual exposure levels under each risk category are monitored against the tolerance levels when preparation of "Risk Profile Dashboard" of the Bank, which is circulated among members of the BIRMC monthly and discussed in detail at quarterly meetings.<br>The Committee takes prompt corrective action to mitigate the effects of specific risks in case, such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Bank's policies and regulatory and supervisory requirements. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| e. | **Frequency of meetings**<br>The Committee meets quarterly and schedules additional meetings when required. The agenda covers matters assessing all aspects of risk management including updated business continuity plans. The Committee met seven times during 2022. | ✓ |
| f. | **Actions against officers responsible for failure to identify specific risks or implement corrective action**<br>The Committee refers such matters, if any, to the Human Resources Department for necessary action with observations and suggestions. | ✓ |
| g. | **Risk Assessment Report to the Board**<br>A comprehensive report of the meeting is submitted to the Board after each Committee meeting, by the Secretary of the Committee for their information, views, concurrence or specific directions. | ✓ |
| h. | **Compliance function**<br>A compliance function has been established to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. This function is headed by a dedicated Compliance Officer who reports to the BAC and the BIRMC. The Compliance Officer submits a Positive Assurance Certificate on Compliance with mandatory banking and other statutory requirements on a quarterly basis to BAC and BIRMC. | ✓ |
| **3 (7)** | **Board Related Party Transactions Review Committee (BRPTRC)** | |
| **3 (7) (i)** | **Avoid conflict of interest**<br>The BRPTRC oversees the processes relating to this subject and its Report is given on pages 179 and 180.<br>All members of the Board are required to make declarations of the positions held with related parties at the time of appointment and annually thereafter. This information is provided to the Finance Department, to capture relevant transactions. In the event of any change (during the year), the Directors are required to make a further declaration to the Company Secretary.<br>Directors refrain from participating at relevant sessions, in which lending to related entities are discussed to avoid any kind of influence and conflict of interest.<br>Transactions carried out with related parties as defined by the Sri Lanka Accounting Standard - LKAS 24 on "Related Party Disclosures", in the normal course of business, are disclosed in Note 62 to the Financial Statements on "Related Party Disclosures" on pages 352 to 356.<br>Directors' interest in contracts, which do not fall into the definition of related party transactions as per LKAS 24, are reported separately in the Annual Report, excluded from Financial Statements. Refer pages 201 and 202 for more details. | ✓ |
| **3 (7) (ii)** | **Related party transactions covered by the Direction**<br>The Related Party Transactions Policy approved by the Board, covers the following transactions:<br>(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation;<br>(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments;<br>(c) The provision of any services of a financial or non-financial nature to the Bank or received from the Bank;<br>(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties, which may lead to sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties. | ✓ |
| **3 (7) (iii)** | **Prohibited transactions**<br>The Bank's Related Party Transactions Policy prohibits transactions, which would grant related parties more favourable treatment than that accorded to other customers. These include the following:<br>(a) Granting of "total net accommodation" to related parties, exceeding a prescribed percentage of the Bank's regulatory capital;<br>(b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;<br>(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;<br>(d) Providing services to or receiving services from a related party without an evaluation procedure;<br>(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| **3 (7) (iv)** | **Granting accommodation to a Director or close relation of a Director**<br><br>A procedure is in place for granting accommodation to Directors or to a close relation/Close Family Member (CFM) of Directors. Such accommodation requires approval at a meeting of the Board of Directors, by not less than two-third of the number of Directors, other than the Director concerned, voting in favour of such accommodation or through circulation of papers, which require approval by all. The terms and conditions of the facility include a proviso that it will be secured by such security, as may from time to time be determined by the Monetary Board as well. Refer section on "Conflicts of Interest" on page 159 for more details. | ✓ |
| **3 (7) (v)** | **Accommodations granted to persons, concerns of persons, or close relations of persons, who subsequently are appointed as Directors of the Bank**<br><br>The Company Secretary obtains declarations/affidavits from all Directors prior to their appointment and they are requested to declare any further transactions.<br><br>Employees of the Bank are aware of the requirement to obtain necessary security, as defined by the Monetary Board, if the need arises.<br><br>Processes for compliance with this regulation is also monitored by the Compliance Unit. | ✓ |
| **3 (7) (vi)** | **Favourable treatment or accommodation to bank employees or their close relations**<br><br>No favourable treatment/accommodation is provided to Bank employees, other than staff benefits. Employees of the Bank are informed through operational circulars, to refrain from granting favourable treatment to other employees or their close relations or to any concern in which an employee or close relation has a substantial interest. | ✓ |
| **3 (7) (vii)** | **Remittance of accommodation subject to Monetary Board approval**<br><br>No such situation has arisen during the year. | ✓ |
| **3 (8)** | **Disclosures** | |
| **3 (8) (i)** | **Publish annual and quarterly financial statements**<br><br>Annual Audited Financial Statements and Interim Financial Statements of the Bank were prepared and published during 2022 in the newspapers (in Sinhala, Tamil and English), in accordance with the formats prescribed by the Supervisory and Regulatory Authorities and applicable accounting standards. | ✓ |
| **3 (8) (ii)** | **Disclosures in Annual Report** | ✓ |
| **a.** | **A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures**<br><br>Disclosures on the compliance with the applicable accounting standards and regulatory requirements in preparation of the Annual Audited Financial Statements, have been made in the "Statement of Directors' Responsibility for Financial Reporting" and "Managing Director's/Chief Executive Officers and Chief Financial Officer's Statement of Responsibility". Refer page 200. | |
| **b.** | **Report by the Board on the Bank's internal control mechanism**<br><br>The Annual Report includes the reports where the Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. Please refer the following statements for more details.<br><br>Annual Report of the Board of Directors on pages 03 and 04.<br><br>Statement of Compliance on pages 188 to 194.<br><br>Statement of Directors' Responsibility for Financial Reporting on pages 195 and 196.<br><br>Directors' Statement on Internal Control over Financial Reporting on pages 197 and 198. | ✓ |
| **c.** | **External Auditors Certification on the Effectiveness of the Internal Control Mechanism**<br><br>The Bank has obtained a certificate on the Effectiveness of Internal Controls over financial reporting, which is published on page 199. | ✓ |

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| **d.** | **Details of Directors, including names, fitness and propriety, transactions with the Bank and the total of fees/remuneration paid by the Bank**<br>Profiles of Board members are given on pages 140 to 145.<br>Directors' Interests in Contracts with the Bank on pages 201 and 202.<br>Details of remuneration paid by the Bank are given in Note 21 to the Financial Statements on page 281. | ✓ |
| **e.** | **Total accommodation granted to each category of related party and as a percentage of the Bank's regulatory capital**<br>The net accommodation granted to each category of related party as a percentage of the Bank's Regulatory Capital are given below:<br>Direct and indirect accommodation to related parties as at December 31, 2022. | ✓ |

| | Category of related party | Rs. Mn. | % |
|---|---|---|---|
| a | Subsidiary companies of the Bank | 3,158 | 1.59 |
| b | Associate of the Bank | – | – |
| c | Directors of the Bank* | 3 | 0.00 |
| D | Members of the Corporate Management of the Bank | 454 | 0.23 |
| e | Close relations of the Bank's directors or members of the Corporate Management | 286 | 0.14 |
| f | Shareholder owning a material interest in the Bank | – | – |
| g | Entities in which Directors/KMP or their close relations have a substantial interest | 4,368 | 2.20 |

* *Include both NEDs and EDs*

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| **f.** | **Aggregate values of remuneration to and transactions with Directors and members of the Corporate Management** | ✓ |

| | Rs. Mn. |
|---|---|
| Remuneration paid for the year ended December 31, 2022 | 792 |
| Accommodation granted – as at December 31, 2022 | 473 |
| Deposits – as at December 31, 2022 | 480 |
| Investments – as at December 31, 2022 | 20 |

| Section | Principle, compliance, and implementation | Complied |
|---|---|---|
| **g.** | **External Auditors Certification of Compliance**<br>The factual findings report has been issued by the External Auditors on the level of compliance with the requirements of these regulations.<br>The findings presented in their report addressed to the Board did not identify any inconsistencies. | ✓ |
| **h.** | **Report confirming compliance with prudential requirements, regulations, laws, and internal controls**<br>The *Statement of Directors' R*esponsibility for Financial Reporting on pages 195 and 196 and item 35 on "Corporate Governance" in the Statement of Compliance on page 193, clearly sets out details regarding compliance with prudential requirements, regulations, laws, and internal controls. | ✓ |
| **i.** | **Non-compliance Report**<br>There were no supervisory concerns on lapses in the Bank's Risk Management Systems or non-compliance with the Direction that have been pointed out by the Director of the Bank Supervision Department of the CBSL and therefore, there is no disclosure in this regard. | ✓ |
| **3 (9)** | **Transitional and other general provisions**<br>The Bank has complied with the transitional provisions, where applicable. | ✓ |

# Annex 1.2: Compliance with Code of Best Practice on Corporate Governance

## Compliance with the Code of Best Practice on Corporate Governance 2017 (the Code) issued by The Institute of Chartered Accountants of Sri Lanka

| Code ref. | Compliance and implementation | Complied |
|---|---|---|
| **A.** | **Directors** | |
| **A.1** | **The Board**<br>The Board of Commercial Bank comprises Eleven eminent professionals drawn from multiple fields and nine out of them are NEDs. They bring diverse perspectives and independent judgement to deliberate on matters set before the Board.<br>Directors are elected by shareholders at the AGMs with the exception of the Chief Executive Officer (CEO) and the Chief Operating Officer (COO) who are appointed by the Board and remain as Executive Directors until retirement, resignation or termination of such appointment. Casual vacancies are filled by the Board based on the recommendations of the BNC as provided for in the Articles of Association. The Board is assisted by the Company Secretary. | ✓ |
| **A.1.1** | **Regular meetings**<br>The Board meets on a monthly basis and each Board Committee also has its own schedule of meetings as set out in the respective Committee reports. The regularity of Board meetings and the structure and process of submitting information have been agreed to and documented by the Board. Attendance at meetings is summarised in Figure 22 on page 160.<br>Information required to be reported to the Board under this Section is reported on a regular basis. | ✓ |
| **A.1.2** | **Role and responsibilities of the Board**<br>The roles and responsibilities of the Board are set out in the Board Charter as summarised on page 163. | ✓ |
| **A.1.3** | **Act in accordance with laws**<br>The Board has an approved working procedure in place to facilitate compliance with the relevant laws, CBSL Directions and guidelines and international best practice with regard to the operations of the Bank. This includes provision to obtain independent professional advice as and when necessary by any Director coordinated through the Company Secretary. | ✓ |
| **A.1.4** | **Access to advice and services of Company Secretary**<br>All Directors are able to obtain the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter involving the whole Board under advisement of the BNC as it is a Key Management Position.<br>The Bank has obtained appropriate insurance cover as recommended by the BNC for the Board of Directors and the Members of the Corporate Management.<br>Refer Section on "Role of the Company Secretary" on page 164 for further details on role of the Company Secretary. | ✓ |
| **A.1.5** | **Independent judgement**<br>The Board comprises of senior professionals who are luminaries in their respective fields and use their independent judgement in discharging their duties and responsibilities on matters of strategy, performance, resource allocation, risk management, compliance, and standards of business conduct. The composition of the Board ensures that there is a sufficient balance of power and contribution by all Directors which minimises the tendency for one or a few members of the Board to dominate the Board processes or decision-making. | ✓ |
| **A.1.6** | **Dedicate adequate time and effort to matters of the Board and the Company**<br>Board meetings and Board Committee meetings are scheduled well in advance and the relevant papers are circulated a week prior to the meeting using electronic means to ensure that Directors have sufficient time to review the same and call for additional information or clarifications, if required. While there is provision to circulate papers closer to the meeting in exceptional circumstances, this is generally discouraged. Members of the Corporate Management Team and external experts make presentations to the Board on the business environment, regulatory changes, operations, and other developments on a regular basis to enhance the knowledge of the Board on matters relevant to the Bank's operations.<br>The NEDs dedicate approximately eighty-four days per annum for the affairs of the Bank and those Directors who are also on the BAC and the BIRMC dedicate at least further ten days each for the affairs of the Bank. | ✓ |
| **A.1.7** | If necessary in the best interest of the Bank, one-third of the Directors can call for a resolution to be presented to the Board. | ✓ |
| **A.1.8** | **Board induction and training**<br>Refer Section on "Induction and Training of Directors" on page 165. | ✓ |

| Code ref. | Compliance and implementation | Complied |
|---|---|---|
| **A.2** | **Separating the business of the Board from the executive responsibilities for management of the Company**<br><br>The positions of the Chairman and the CEO have been separated in line with best practice in order to maintain a balance of power and authority. The Chairman is an Independent Non-Executive Director whilst the CEO is an Executive Director appointed by the Board. The roles of the Chairman and the CEO are clearly defined in the approved Board paper and the Board Charter. | ✓ |
| **A.3** | **Chairman's role in preserving good corporate governance**<br><br>The Chairman provides leadership to the Board, preserving order and facilitating the effective discharge of duties of the Board and is responsible for ensuring the effective participation of all Directors and maintaining open lines of communication with KMP, acting as a sound Board on strategic and operational matters. The agenda for Board meetings is developed by the Chairman in consultation with the Directors, the CEO, and the Company Secretary, taking into consideration matters relating to strategy, performance, resource allocation, risk management, and compliance. Sufficiently detailed information on matters included in the agenda is provided to the Directors on time. Both Executive Directors and NEDs ensure the balance of power on the Board, for the benefit of the Bank, by effectively participating in decision making. All Directors have been made aware of their duties and responsibilities and the Board and Committee structures. All Directors are encouraged to seek information necessary to discuss matters on the agenda. Views expressed by Directors on issues under consideration are recorded in the minutes. | ✓ |
| **A.4** | **Availability of financial acumen and knowledge to offer guidance on matters of finance**<br><br>The Chairman of the BAC who is a NED is a Fellow Member of the CA Sri Lanka ensuring a sufficiency of financial acumen within the Board on matters of finance. Additionally, EDs and a NED are professionals with vast experience on matters of finance. | ✓ |
| **A.5** | **Board balance**<br><br>The Chairman is an Independent Non-Executive Director. The Board comprises of nine NEDs and two EDs facilitating an appropriate balance within the Board. NEDs are independent of management and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. They submit annual declarations to this effect which are evaluated to ensure compliance with the criteria for determining independence in line with the requirements of the applicable regulations and this Code. There are no Alternate Directors appointed to represent the Directors of the Bank. | ✓ |
| **A.6** | **Provision of appropriate and timely information**<br><br>Board members receive information regarding matters set before the Board a week prior to the meetings. The Chairman ensures that all Directors are properly briefed on same by requiring the presence of members of the Corporate Management when deemed necessary. Management also makes presentations on regular agenda items to the Board and its Committees. Additionally, the Directors have access to members of the Corporate Management to seek clarifications or additional information on matters presented to the Board. Directors who are unable to attend a meeting is updated on proceedings through formally documented minutes, which are also discussed at the next meeting to ensure follow-up and proper recording. Minutes of a meeting is ordinarily provided to Directors at least within two weeks after the meeting date. | ✓ |
| **A.7** | **Appointments to the Board and re-election**<br><br>Refer Section on "Appointments/retirements and resignations of Directors" given on page 164 and Report of the BNC on pages 175 and 176. | ✓ |
| **A.8** | **All Directors should submit themselves for re-election at regular intervals**<br><br>Refer Section on "Re-election/election of Directors" on page 165<br><br>In the event of resignation of a Director prior to completion of his/her appointed term, such resignation including reasons for decision shall be communicated in writing. | ✓ |
| **A.9** | **Appraisal of Board and Board Committee performance**<br><br>Refer Section on "Board and Board Committee Evaluations" on page 166. | ✓ |
| **A.10** | **Annual Report to disclose specified information regarding Directors** | ✓ |
| | **Information specified in the Code with regard to Directors is disclosed within this Annual Report as follows:**<br><br>Profiles including qualifications, expertise, material business interests and key appointments on pages 140 to 145.<br><br>Directors' Interest in contracts with the Bank on pages 201 and 202.<br><br>Remuneration paid to Directors in Note 21 to the Financial Statements on page 281.<br><br>Related Party Disclosures in Note 62 to the Financial Statements on pages 352 to 356.<br><br>Membership of committees and attendance at Board meetings and Committee meetings on page 160 and pages 168 to 187. | |

| Code ref. | Compliance and implementation | Complied |
|---|---|---|
| **A.11** | **Appraisal of the CEO**<br>Refer section on "Appraisal of the CEO" on page 166. | ✓ |
| **B.** | **Directors' remuneration** | |
| **B.1** | **Remuneration procedure**<br>Refer section on "Directors' and Executive remuneration" on page 165 and Report of the BHRRC on pages 177 and 178. | ✓ |
| **B.2** | **Level and make-up of remuneration**<br>Refer section on "Level and make up of remuneration" on page 165. | ✓ |
| **B.3** | **Disclosures related to remuneration in Annual Report**<br>Section on Directors' and Executive remuneration – Refer page 165.<br>Details of remuneration of the Board – Refer Note 21 to the Financial Statements on page 281.<br>Report of the BHRRC – Refer pages 177 and 178.<br>Compensation to KMP – Refer Note 62.2.1 to the Financial Statements on page 352. | ✓ |
| **C.** | **Relations with shareholders** | |
| **C.1** | **Constructive use of the AGM and conduct of other General Meetings**<br>The AGM provides a forum for all shareholders to participate in decision-making matters reserved for the shareholders which typically include proposals to adopt the Annual Report and Accounts, election and re-election of Directors and Auditors and other matters requiring special resolutions as defined in the Articles of Association or the Companies Act No. 07 of 2007 (as amended). Separate resolutions are proposed for each material issue. The Chairman ensures the presence of the Chairmen of the BAC, BHRRC, BNC and BRPTRC to respond to any questions that may be directed to them. Notice of the AGM is circulated together with the Annual Report and Accounts which includes information relating to any other resolutions that may be set before the shareholders at the AGM fifteen working days in advance. The Bank ensures that all valid proxy appointments received for the AGM are counted and properly recorded.<br>A summary of the procedures governing voting at General Meetings is included under "Shareholder engagement and voting" section on page 166 of this Annual Report.<br>Where a vote is required on a show of hands, the Bank will ensure that information required under the Code will be made available at the meeting and be published in the website within a month from the date of the AGM. | ✓ |
| **C.2** | **Communication with shareholders**<br>The Shareholder Communication Policy sets out multiple channels of communication for engaging with shareholders. Channels include investor section of the website at *http://www.combank.lk/investors,* press releases and notices in English, Sinhala and Tamil newspapers and required disclosures to the CSE which are published on the CSE website. The Bank's website provides information on risk management, economy and financial markets in addition to the financial information. The Interim Financial Statements are published in English, Sinhala and Tamil newspapers within stipulated deadlines. Every effort is made to ensure that the Annual Report provides a balanced review of the Bank's performance.<br>The principal forum for shareholders is the AGM, while matters can also be raised through the Company Secretary. The Company Secretary keeps the Board apprised of issues raised by the shareholders to ensure that they are addressed in an appropriate manner in keeping with the corporate values of the Bank. Matters raised in writing are responded to in writing by the Company Secretary. | ✓ |
| **C.3** | **Disclosure of major and material transactions**<br>The Shareholders Communication Policy addresses the need to disclose major and material transactions to shareholders as required by the rules and regulations of the SEC and the CSE and the Bank has in place a defined process to comply with the requirements. There were no transactions which would materially alter the Bank's or Group's net assets nor any major related party transactions apart from those disclosed as follows:<br>• Shareholder engagement and voting on page 166.<br>• Statement of Compliance on pages 188 to 194.<br>• Related Party Disclosures as disclosed in Note 62 to the Financial Statements on pages 352 to 356. | ✓ |

| Code ref. | Compliance and implementation | Complied |
|---|---|---|
| **D.** | **Accountability and audit** | |
| **D.1** | **Present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls, and challenges, opportunities and prospects**<br><br>All efforts are taken to ensure that the Annual Report presents a balanced review of the Bank's financial position, performance, Business Model, Governance, Structure, Risk Management, Internal Controls, and Challenges, Opportunities and Prospects combining narrative and visual elements to facilitate readability and comprehension. Due care has been exercised to ensure that all statutory requirements are compiled within the Annual Report and the issue of interim communications on financial performance which are reviewed by the BAC and recommended prior to publication. The following disclosures as required by the Code are included in this Report:<br>• Management Discussion and Analysis – Refer pages 58 to 137.<br>• Annual Report of the Board of Directors – Refer pages 03 and 04.<br>• Statement of Compliance – Refer pages 188 to 194.<br>• Statement of Directors' Responsibility for Financial Reporting – Refer pages 195 and 196.<br>• Directors' Statement on Internal Control over Financial Reporting – Refer pages 197 and 198.<br>• Managing Director/Chief Executive Officer's and Chief Financial Officer's Statement of Responsibility on page 200.<br>• Independent Auditors' Report on page 199.<br>• Related Party Transactions disclosed in Note 62 to the Financial Statements on pages 352 to 356 and the process in place is described in the Report of the BRPTRC on pages 179 and 180.<br><br>In the unlikely event of the net assets of the Company falling below 50% of Shareholders' Funds, the Board will summon an Extraordinary General Meeting (EGM) to notify the shareholders of the position and to explain the remedial action being taken. The Annual Report clearly explains how net assets have increased during the year in the Financial Review on pages 100 to 111. | ✓ |
| **D.2** | **Process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company's assets**<br><br>The Board is responsible for determining the risk appetite for achieving the strategic objectives and formulates and implements appropriate processes for risk management and internal control systems to safeguard shareholder investments and assets of the Bank. The BIRMC assists the Board in discharge of its duties with regard to risk management and the BAC assists the Board in the discharge of its duties in relation to internal control which in turn is supported by the Inspection Department. Their responsibilities are summarised in the respective Committee Reports and have been formulated with reference to the requirements of the Code and the Direction on Corporate Governance and the Bank's business needs. The BIRMC is supported by the Integrated Risk Management function of the Bank and a comprehensive report of how the Bank manages risk is given in the Section on "Risk Governance & Management" on pages 203 to 228 and the Report of the BIRMC on pages 172 and 174. | ✓ |
| **D.3** | **Board Audit Committee**<br><br>The BAC comprises of five independent NEDs and a summary of its responsibilities and activities are given in the Report of the BAC as appearing on pages 168 to 171 It is supported by the Internal Audit function of the Bank reporting directly to the BAC. The Chairman of the Committee is Mr R Senanayake, a Fellow member of CA Sri Lanka. The Committee has also appointed Mr Reyaz Mihular FCA, FCMA, Managing Partner of Messrs KPMG as a Consultant to the Committee, who is invited to the meetings. Refer Report of the BAC on pages 168 to 171.<br><br>The Board also obtains assurance from its External Auditors on the effectiveness of internal controls on financial reporting which is given on page 199. | ✓ |
| **D.4** | **Board Related Party Transactions Review Committee (BRPTRC)**<br><br>The BRPTRC Committee comprises of three (3) Independent NEDs. The two EDs also attend the meetings by invitation. A summary of responsibilities and activities are given in the report of the BRPTRC on pages 179 and 180.<br><br>The Bank has a Board-approved Related Party Transactions Policy in place which addresses requirements under this section. | ✓ |
| **D.5** | **Code of Ethics**<br><br>The Bank has an internally-developed Code of Business Conduct and Ethics which is applicable to Directors, other KMP, and all other employees. The Bank also has Board approved policy applicable to dealing in shares of the Bank which are fully compliant with the Listing Rules of the CSE. | ✓ |

| Code ref. | Compliance and implementation | Complied |
|---|---|---|
| | The Code of Conduct of the Bank is in compliance with the requirements of the Schedule J of the Code on "Code of Business Conduct and Ethics" which encompasses conflict of interest, bribery and corruption, entertainment and gifts, accurate accounting and record-keeping, corporate opportunities, confidentiality, fair dealing, protection and proper use of Company assets including information assets, compliance with laws, rules and regulations (including insider trading laws), fair and transparent procurement practices, and encouraging the reporting of any illegal, fraudulent, or unethical behaviour. The Code also requires any incidents involving any non-compliance be brought to the attention of those charged with governance. The BHRRC of the Bank reviews the Code on an annual basis to ensure that it is sufficient and relevant with reference to the current operations of the Bank. "Message from the Chairman" on pages 26 to 29 provides confirmation of the Bank's adherence to the code of Business Conduct and Ethics.<br><br>The Bank has a process in place to ensure that material and price sensitive information is promptly identified and reported in accordance with the relevant regulations. All Executive Officers and members of the Corporate Management of the Bank are required to declare details of their dealings in shares of the Bank in a prescribed format to the Company Secretary of the Bank immediately. In addition, the Directors of the Bank too are required to disclose their dealings in shares of the Bank to the Company Secretary, enabling him to make required disclosures on details of such transactions to the CSE. The Chief Financial Officer too monitors daily share transactions list to identify whether Directors, other KMP or employees involved in financial reporting are dealing in shares. | ✓ |
| **D.6** | **Corporate governance disclosures**<br><br>The Annual Corporate Governance Report from pages 154 to 167 comply with the disclosure requirements of the Code. | ✓ |
| **E. & F.** | **Encourage voting at AGM**<br><br>The Bank has 17,022 ordinary voting shareholders as at end 2022, of which 653-are institutional shareholders. The Bank has regular dialogue with the large institutional shareholders and any concerns of these institutional shareholders expressed at the meetings is communicated to the Board as a whole. All shareholders are encouraged to exercise their voting powers at the AGM. The Bank facilitates the analysis of its securities by encouraging both foreign and local analysts covering the Bank with structured meetings where they are able to obtain information and explanations required for evaluating the current and future performance of the Bank, sector and country. Additionally, the "Investors" section on the Bank's website has key information required by shareholders and analysts. The Interactive Annual Report also has a tab where investors can provide feedback and request for specified information.<br><br>All prospectuses include a clause which require all prospective investors in shares and debentures of the Bank to seek independent professional advice before investing. | ✓ |
| **G.** | **Internet of things and cyber security**<br><br>The Bank is certified under the globally accepted, de-facto standard for Information Security Management Systems (ISMS) – ISO/IEC 27001:2013 and Payment Card Industry Data Security Standard (PCI DSS), both focusing on ensuring confidentiality, integrity and availability of data/ information. Accordingly, the Bank's ISMS is established adhering to the rigorous management, physical and technical controls pertaining to information security as required by the two security standards, as well as the requirements stipulated in the Baseline Security Standard mandated by the CBSL, for protecting information systems from cyber threats.<br><br>The Bank has appointed a Chief Information Security Officer (CISO) reporting to the MD/ CEO to provide leadership to the Bank's overall information security function. The Information Security Council (ISC) which is the apex Management-level body responsible for the information security of the Bank is chaired by the CEO, and reports to the Board of Directors through the BIRMC, charged with oversight responsibilities for information and cyber risk management.<br><br>The Bank has in place a comprehensive, Board approved Information Security Policy (ISP) which defines all the security requirements to be fulfilled by employees, partners and other external parties as per the ISMS Framework. The ISP which is primarily aligned to the ISO/IEC 27001:2013 Standard includes policies for the domains covering organisation of information security, physical and logical access control, asset management, operations and communication security, HR security, supplier relationships, information security incident management, business continuity management, etc. Network security management controls and information transfer policies and procedures have been defined in the ISP to ensure protection of information/ supporting information processing facilities in the Bank's network/s and to maintain the security of information transferred within the organisation and with external entities.<br><br>In line with the ISP, the Bank has established an Information Security Risk Assessment and Treatment Policy, and as per the said Policy, information/ cyber security risk assessments are carried out periodically. Risk levels associated with processes/ systems are evaluated during the review. Where residual risk levels are above the defined acceptable thresholds, risk treatment plans are defined for mitigation of these systems/ processes and the remediation is prioritised based on the risk level. Further, Bank conducts technical security assessments such as vulnerability assessments, penetration tests, application security assessments, configuration assessments, etc periodically (monthly, quarterly, bi-annually and annually) as per the Bank's policies and compliance requirements (e.g.: PCI DSS, CBSL), in order to gauge the cyber risk profile of the Bank. The ISMS is independently validated on an annual basis by the ISO 27001 ISMS external auditors and Qualified Security Assessors of the PCI Council. | ✓ |

| Code ref. | Compliance and implementation | Complied |
|---|---|---|
| | Performance of the ISMS and any deviations, information security incidents, results of internal and external information security audits, information security road-map/ progress of cyber security projects as well as the information security risk profile of the Bank is regularly reported to the ISC, and the BIRMC is kept updated periodically through risk indicators and other reports. Further, sufficient time is allocated in the agenda of the BTC and BAC for discussion on cyber risk management.<br><br>Refer reports of the BIRMC, BTC and BAC on pages 172 to 174, 184 and 185 and 168 to 171 for further information. | |
| **H.** | **Environment, Society and Governance (ESG)** | |
| **H.1** | **ESG reporting**<br><br>ESG principles are embedded in our business operations and considered in formulating our business strategy as described in this Annual Report. Information required by the Code is given in the following sections of the Annual Report:<br><br>• Management Discussion and Analysis on pages 58 to 137.<br>• Governance and Risk Management on pages 138 to 228.<br>• Connecting with Stakeholders and Materiality Matters on pages 36 to 45.<br><br>This Annual Report has been prepared in accordance with the IIRC Framework, the GRI Guidelines and "A Preparer's Guide to Integrated Corporate Reporting" published by CA Sri Lanka.<br><br>Refer "Introducing our 54th Annual Report" on pages 5 to 8. | ✓ |

# Annex 1.3: Disclosure Requirements in Annual Financial Statements as required by the CBSL

## Disclosure requirements under the prescribed format issued by the Central Bank of Sri Lanka for preparation, presentation and publication of Annual Audited Financial Statements of Licensed Commercial Banks via the Circular No.02 of 2019 dated January 18, 2019

| Disclosure requirements | Description | Page No/s. |
|---|---|---|
| **1. Information about the significance of financial instruments for financial position and performance** | | |
| **1.1 Statement of Financial Position** | | |
| 1.1.1 Disclosures on categories of financial assets and financial liabilities. | *Notes to the Financial Statements:*<br>Note 26 – Classification of financial assets and financial liabilities | 285 and 286 |
| 1.1.2 Other disclosures | | |
| (i) Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement. | *Significant Accounting Policies:*<br>Note 7.1.3.5.2 Financial assets designated at FVTPL<br>Note 7.1.4.1.2 Financial liabilities designated at FVTPL | 262<br>262 |
| (ii) Reclassifications of financial instruments from one category to another. | *Significant Accounting Policies:*<br>Note 7.1.6 – Reclassification of financial assets and liabilities | 264 |
| (iii) Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral. | *Notes to the Financial Statements:*<br>Note 66.1.4 – Collateral held | 371 |
| (iv) Reconciliation of the impairment allowance account for credit losses by class of financial assets. | *Notes to the Financial Statements:*<br>Movement in provision for impairment during the year for each classes of assets are given in the following Notes<br>• Note 28.1 – Cash and cash equivalents,<br>• 30.1 – Placements with banks,<br>• Notes 33.2 and 33.3 (c) – Financial assets at amortised cost – Loans and advances to other customers and Lease/hire purchase receivable,<br>• Note 34.1 – Financial assets at amortised cost – Debt and other financial instruments,<br>• Note 35.2 – Financial assets measured at fair value through other comprehensive income | <br><br><br>290<br>291<br>298 and 300<br>301<br>303 |
| (v) Information about compound financial instruments with multiple embedded derivatives. | *Significant Accounting Policies:*<br>Note 7.1.5.5 Embedded derivatives<br>The Bank does not have compound financial instruments with multiple embedded derivatives. | 264 |
| (vi) Breaches of terms of loan agreements. | None | – |
| **1.2 Statement of Comprehensive Income** | | |
| 1.2.1 Disclosures on items of income, expense, gains, and losses. | *Notes to the Financial Statements:*<br>Notes 12 to 23 to the Financial Statements | 272 to 283 |
| 1.2.2 Other disclosures | | |
| (i) Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss. | *Notes to the Financial Statements:*<br>Note 13 – Net interest income | 272 to 274 |
| (ii) Fee income and expense. | *Notes to the Financial Statements:*<br>Note 14 – Net fee and commission income | 274 and 275 |
| (iii) Amount of impairment losses by class of financial assets. | *Notes to the Financial Statements:*<br>Note 18 – Impairment charges and other losses | 276 to 279 |
| (iv) Interest income on impaired financial assets. | *Notes to the Financial Statements:*<br>Note 13.1 – Interest income | 272 |
| **1.3 Other disclosures** | | |
| 1.3.1 Accounting policies for financial instruments. | *Significant Accounting Policies:*<br>Note 7.1 – Financial instruments – Initial recognition, classification and subsequent measurement | 260 |
| 1.3.2 Information on financial liabilities designated at FVTPL. | *Significant Accounting Policies:*<br>Note 7.1.4.1.2 Financial liabilities designated at FVTPL | 262 |
| 1.3.3 Investments in equity instruments designated at FVOCI<br>(i) Details of equity instruments that have been designated at FVOCI and the reasons for the designation. | *Notes to the Financial Statements:*<br>Note 35 – Financial assets measured at fair value through other comprehensive income | 302 to 304 |

| Disclosure requirements | Description | Page No/s. |
|---|---|---|
| (ii) Fair value of each investment at the reporting date. | *Notes to the Financial Statements:*<br>Note 35.3 (a) and 35.3 (b) – Equity securities | 303 and 304 |
| (iii) Dividends recognised during the period, separately for investments derecognised during the reporting period and those held at the reporting date. | *Notes to the Financial Statements:*<br>Note 17 – Net other operating income | 276 |
| (iv) Transfer of cumulative gain or loss within equity during the period and the reasons for those transfers. | Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity. | 238 and 240 to 247 |
| (v) If investments in equity instruments measured at FVOCI are derecognised during the reporting period,<br>– reasons for disposing of the investments<br>– fair value of the investments at the date of derecognition<br>– the cumulative gain or loss on disposal. | Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity. | 238 and 240 to 247 |
| **1.3.4** Reclassification of financial assets | | |
| (i) For all reclassifications of financial assets in the current or previous reporting period<br>– date of reclassification<br>– detailed explanation of the change in the business model and a qualitative description of its effect on the financial statements<br>– the amount reclassified into and out of each category | *Significant Accounting Policies*<br>Note 7.1.6 Reclassification of financial assets and liabilities. During the year 2022, the Bank reclassified financial assets. Refer Note 35.1 for details<br>However, during the year 2021, the Bank did not reclassify financial assets. | 264 and 303 |
| (ii) For reclassifications from FVTPL to amortised cost or FVOCI<br>– the effective interest rate (EIR) determined on the date of reclassification<br>– the interest revenue recognised | During the current or previous year, the Bank did not reclassify financial instruments from FVTPL to amortised cost or FVOCI. | – |
| (iii) For reclassifications from FVOCI to amortised cost, or from FVTPL to amortised cost or FVOCI<br>– the fair value of the financial assets at the reporting date<br>– the fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified | During the year 2022, the Bank reclassified financial assets as disclosed under Note 7.1.6 Reclassification of financial assets and liabilities and Note 35.1 – Government Securities<br>However, during the year 2021, the Bank did not reclassify financial instruments from FVOCI to amortised cost or from FVTPL to amortised cost or FVOCI. | 264 and 303 |
| **1.3.5** Information on hedge accounting | *Significant Accounting Policies:*<br>Note 7.1.5 – Derivatives held for risk management purposes and hedge accounting<br>*Notes to the Financial Statements:*<br>Note 31.1 – Derivative financial assets – cash flow hedges held for risk management<br>Note 44.1 – Derivative financial liabilities – cash flow hedges for risk management. | 263<br>292<br>325 |
| **1.3.6** Information about the fair values of each class of financial asset and financial liability, along with: | | |
| (i) Comparable carrying amounts. | *Notes to the Financial Statements:*<br>Note 27.1 – Assets and liabilities measured at fair value and fair value hierarchy,<br>Note 27.3 – Financial instruments not measured at fair value and fair value hierarchy | 287<br>288 |
| (ii) Description of how fair value was determined. | *Significant Accounting Policies:*<br>Note 4 and 27 - Fair value measurement | 258 and 286 to 290 |
| (iii) The level of inputs used in determining fair value. | *Notes to the Financial Statements:*<br>Note 27.3 – Financial instruments not measured at fair value and fair value hierarchy<br>Note 27.4 – Valuation techniques and inputs in measuring fair values<br>Note 38.5 (b) and 38.5 (c) – Information on valuations of freehold land and buildings of the Bank | 288<br>290<br>313 and 318 |
| (iv) a. Reconciliations of movements between levels of fair value measurement hierarchy.<br>b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs. | There were no movements between levels of fair value hierarchy during the year under review.<br>*Notes to the Financial Statements:*<br>Note 27.2 – Level 3 Fair value measurement | –<br>288 |
| (v) Information if fair value cannot be reliably measured. | None | – |
| **2. Information about the nature and extent of risks arising from financial instruments** | | |
| **2.1 Qualitative disclosures** | | |
| **2.1.1** Risk exposures for each type of financial instrument | *Significant Accounting Policies:*<br>Note 3 – Financial Risk Management<br>*Notes to the Financial Statements:*<br>Note 66 – Financial Risk Review | 254 to 258<br>358 to 386 |

| Disclosure requirements | Description | Page No/s. |
|---|---|---|
| **2.1.2** Management's objectives, policies and processes for managing those risks. | *Significant Accounting Policies:*<br>Note 3 – Financial Risk Management<br><br>Refer the Section on "Risk Governance and Management" for comprehensive disclosure of Management's objectives, policies and processes. | 254 to 258<br>203 to 228 |
| **2.1.3** Changes from the prior period. | There were no major policy changes during the year under review. | – |
| **2.2 Quantitative disclosures** | | |
| **2.2.1** Summary of quantitative data about exposure to each risk at the reporting date. | *Notes to the Financial Statements:*<br>Note 66 – Financial Risk Review | 358 to 386 |
| **2.2.2** Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed. | | |
| **(i) Credit risk** | | |
| (a) Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets. | *Notes to the Financial Statements:*<br>Note 66.1.1 – Credit Quality Analysis<br>Note 66.1.4 – Collateral Held | 359<br>371 |
| (b) For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset. | *Notes to the Financial Statements:*<br>Note 66.1.1 – Credit Quality Analysis<br>Note 18 – Impairment charges and other losses – collateral valuation for the description on collaterals<br>Note 66.1.4 – Collateral Held Significant Accounting Policies:<br>Note 7.1.12 – Identification and measurement of impairment of financial assets for factors considered in determining the financial assets as impaired | 359<br>276 to 279<br>371<br>265 |
| (c) Information about collateral or other credit enhancements obtained or called. | *Notes to the Financial Statements:*<br>Note 66.1.4 – Collateral held | 371 |
| (d) Credit risk management (CRM) practices | | |
| – Information about CRM practices and how they relate to the recognition and measurement Expected Credit Losses (ECL), including the methods, assumptions and information used to measure ECL | *Significant Accounting Policies:*<br>Note 2.12.5 – Impairment losses on financial assets<br>Note 7.1.12 – Identification and measurement of impairment of financial assets<br>*Notes to the Financial Statements:*<br>Note 18 – Impairment charges and other losses | 252<br>265<br>276 to 279 |
| – Quantitative and qualitative information to evaluate the amounts in the Financial Statements arising from ECL, including changes and the reasons for those changes. | *Notes to the Financial Statements:*<br>Note 18 – Impairment charges and other losses<br>Note 66.1.1 – Credit Quality Analysis | 276 to 279<br>359 |
| – How the Bank determines whether the credit risk of financial instruments has increased significantly since initial recognition, including whether and how financial instruments are considered to have low credit risk, including the classes of financial instruments to which the low credit risk exception has been applied; and the presumption that financial assets with contractual payments more than 30 days past due (DPD) have a significant increase in credit risk (SICR) has been rebutted. | *Significant Accounting Policies:*<br>Note 7.1.12.2 – Significant increase in credit risk | 266 |
| – The Bank's definitions of default for different financial instruments, including the reasons for selecting those definitions | *Significant Accounting Policies:*<br>Note 7.1.12.3 – Definition of default and credit impaired assets | 266 |
| – How instruments are grouped if ECL are measured on a collective basis | *Significant Accounting Policies:*<br>Note 7.1.12.5 Grouping financial assets measured on collective basis<br>*Notes to the Financial Statements:*<br>Note 18 – Impairment charges and other losses | 266<br>276 to 279 |
| – How the Bank determines that financial assets are credit-impaired | *Significant Accounting Policies:*<br>Note 7.1.12.3 – Definition of default and credit impaired assets | 266 |
| – The Bank's write-off policy, including the indicators that there is no reasonable expectation of recovery | *Notes to the Financial Statements:*<br>Note 18 – Impairment charges and other losses – "Write off of financial assets" | 276 to 279 |
| – How the modification requirements have been applied, including how the bank determines whether the credit risk of a financial asset that has been modified subject to a lifetime ECL allowance has been improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month ECL and monitors the extent to which the loss allowance on those assets subsequently reverts to being measured at an amount equal to lifetime ECL | *Significant Accounting Policies:*<br>Note 7.1.8 – Modification of financial assets and financial liabilities<br>*Notes to the Financial Statements:*<br>Note 66.1.1 (b) Credit exposure movement – ECL stage-wise<br>Note 66.1.1 (c) Provision for impairment (ECL) movement | 265<br>362<br>365 |

| Disclosure requirements | Description | Page No/s. |
|---|---|---|
| (e) ECL calculations<br>– Basis of the inputs, assumptions and the estimation techniques used when<br>– estimating 12 month and lifetime ECL<br>– determining whether the credit risk of financial instruments has increased significantly since initial recognition; and<br>– determining whether the financial assets are credit-impaired | *Significant Accounting Policies:*<br>Note 2.12.5 – Impairment losses on financial assets<br>Notes to the Financial Statements:<br>Note 7.1.12 – Identification and measurement of impairment of financial assets | 252<br><br>265 |
| – How forward-looking information has been incorporated into the determination of ECL, including the use of macro-economic information; and | Note 18 – Impairment charges and other losses – "Forward looking information" | 276 to 279 |
| – Changes in estimation techniques or significant assumptions made during the reporting period and the reasons for those changes. | *Significant Accounting Policies:*<br>Note 2.12.5 – Impairment losses on financial assets | 252 |
| (f) Amounts arising from ECL<br>– Reconciliation for each class of financial instrument of the opening balance to the closing balance of the impairment loss allowance.<br>– Explain the reasons for changes in the loss allowances in the reconciliation. | *Notes to the Financial Statements:*<br>• Movement in provision for impairment during the year for each class of assets is given in Notes 28.1 – Cash and cash equivalents, 30.1 – Placements with banks, 33.2 and 33.3 (c) – Financial assets at amortised cost – Loans and advances to other customers and Lease/hire purchase receivables, 34.1 – Financial assets at amortised cost – Debt and other financial instruments, 35.2 – Financial assets measured at fair value through other comprehensive income.<br>Note 66.1.1 (c) Provision for impairment (ECL) movement | 290<br>292<br>298<br>300<br>301<br>303<br>365 |
| (g) Collateral<br>– Amount that best represents the bank's maximum exposure to credit risk at the reporting date, without taking into account of any collateral held or other credit enhancements;<br>– Narrative description of collateral held as security and other credit enhancements, (except for lease receivables), including;<br>– discussion on the nature and quality of the collaterals held;<br>– explanation on any significant changes in quality as a result of a deterioration of changes in the bank's collaterals policies during the reporting period;<br>– information about the financial instruments for which the bank has not recognised a loss allowance because of the collateral;<br>– quantitative information about the collateral held as security and other credit enhancements;<br>– information about the fair value of the collateral and other credit enhancements, or to quantify the exact value of the collateral that was included in the calculation of ECL | *Notes to the Financial Statements:*<br>Note 66.1 – Credit risk | 358 to 374 |
| (h) Written-off assets<br>– contractual amount outstanding of financial assets written off during the reporting period that are still subject to enforcement activity | *Notes to the Financial Statements:*<br>Note 33.2 – Movement in provision for impairment during the year<br>Note 17 – Net other operating income | 298<br>276 |
| (i) Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital requirements under Basel III for Licensed Banks | *Notes to the Financial Statements:*<br>Note 66.5 – Capital management and Pillar III disclosures as per Basel III | 385 and 386 |
| **(ii) Liquidity risk**<br>(a) A maturity analysis of financial assets and liabilities. | *Notes to the Financial Statements:*<br>Note 60 – Maturity Analysis – Group<br>Note 66.2.2 – Maturity analysis of financial assets and financial liabilities – Bank | 348 and 349<br>376 and 377 |
| (b) Description of approach to risk management. | *Significant Accounting Policies:*<br>Note 3 – Financial Risk Management<br>Refer the Section on "Risk Governance and Management" | 254 to 258<br>203 to 228 |
| (c) Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital requirements under Basel III for Licensed Banks | Annex 2 – Basel III – Disclosures under pillar III as per Banking Act Direction No. 01 of 2016 | 411 to 423 |
| **(iii) Market risk**<br>(a) A sensitivity analysis of each type of market risk to which the Bank is exposed. | *Notes to the Financial Statements:*<br>Note 66.3.2 – Exposure to interest rate risk – sensitivity analysis | 382 and 383 |
| (b) Additional information, if the sensitivity analysis is not representative of the Bank's risk exposure. | *Notes to the Financial Statements:*<br>Note 66.3.3 – Exposure to currency risk – Non-trading portfolio | 384 |
| (c) Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital requirements under Basel III for Licensed Banks | Annex 2 – Basel 3 – Disclosures under pillar III as per Banking Act Direction No. 01 of 2016 | 411 to 423 |
| **(iv) Operational risk**<br>Pillar III disclosures of the Banking Act Directions No. 01 of 2016 on Capital requirements under Basel III for Licensed Banks | Annex 2 – Basel 3 – Disclosures under pillar III as per Banking Act Direction No. 01 of 2016 | 411 to 423 |

| Disclosure requirements | Description | Page No/s. |
|---|---|---|
| **(v) Equity risk in the banking book**<br>(a) Qualitative Disclosures<br>– Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons. | *Notes to the Financial Statements:*<br>Note 32 – Financial assets recognised through profit or loss – measured at fair value<br>Note 35 – Financial assets measured at fair value through other comprehensive income | <br>293 to 296<br>302 to 304 |
| – Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. | Note 66.3.4 – Exposure to equity price risk | 385 |
| (b) Quantitative Disclosures<br>– Value disclosed in the Statement of Financial Position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value. | *Notes to the Financial Statements:*<br>Note 32 – Financial assets recognised through profit or loss – measured at fair value<br>Note 35 – Financial assets measured at fair value through other comprehensive income | <br>293 to 296<br>302 to 304 |
| – The types and nature of investments | *Significant Accounting Policies:*<br>Note 7.1.3.4 – Financial assets measured at FVOCI<br>Note 7.1.3.5 – Financial assets measured at FVTPL<br>*Notes to the Financial Statements:*<br>Note 32 – Financial assets recognised through profit or loss – measured at fair value<br>Note 35 – Financial assets measured at fair value through other comprehensive income | <br>262<br>262<br><br>293 to 296<br>302 to 304 |
| – The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period | Statement of Profit or Loss and Other Comprehensive Income<br>*Notes to the Financial Statements:*<br>Note 15 – Net gains/(losses) from trading | 238<br>275 |
| **(vi) Interest rate risk in the banking book**<br>(a) Qualitative Disclosures<br>Nature of interest rate risk in the banking book (IRRBB) and key assumptions. | *Notes to the Financial Statements:*<br>Note 66.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis<br>Refer the Section on "Risk Governance and Management" | 382 and 383<br>203 to 228 |
| (b) Quantitative disclosures<br>– The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to the management's method for measuring IRRBB, broken down by currency (as relevant). | *Notes to the Financial Statements:*<br>Note 66.3.2 – Exposure to Interest Rate Risk – Sensitivity analysis<br>Refer the Section on "Risk Governance and Management" | 382 and 383<br>203 to 228 |
| **2.2.3** Information on concentrations of risk. | *Notes to the Financial Statements:*<br>Note 66.1.5 – Concentration of credit risk | 371 to 374 |
| **3. Other disclosures** | | |
| **3.1 Capital**<br>**3.1.1 Capital structure**<br>**(i) Qualitative disclosures**<br>Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex, or hybrid capital instruments. | *Notes to the Financial Statements:*<br>Note 66.5 – Capital Management and Pillar III disclosures as per Basel III | 385 and 386 |
| **(ii) Quantitative disclosure**<br>(a) The amount of Tier 1 capital, with separate disclosure of:<br>• Paid-up share capital/common stock<br>• Reserves<br>• Non-controlling interests in the equity of subsidiaries<br>• Innovative instruments<br>• Other capital instruments<br>• Deductions from Tier 1 capital<br>(b) The total amount of Tier 2 and Tier 3 capital<br>(c) Other deductions from capital<br>(d) Total eligible capital | *Notes to the Financial Statements:*<br>Note 66.5 – Capital Management and Pillar III disclosures as per Basel III<br>Refer the Section on "Risk Governance and Management" | 385 and 386<br>203 to 228 |
| **3.1.2 Capital adequacy**<br>**(i) Qualitative disclosures**<br>A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities. | *Notes to the Financial Statements:*<br>Note 66.5 – Capital Management and Pillar III disclosures as per Basel III<br>Refer the Section on "Risk Governance and Management" | 385 and 386<br>203 to 228 |
| **(ii) Quantitative disclosures**<br>(a) Capital requirements for credit risk, market risk, and operational risk<br>(b) Total and Tier 1 capital ratio | Note 66.5 – Capital Management and Pillar III disclosures as per Basel III<br>Refer the Section on "Risk Governance and Management" | 385 and 386<br>203 to 228 |

# Annex 2: Basel III – Disclosures under Pillar III as per the Banking Act Direction No. 01 of 2016

## Disclosure 1

### Key regulatory ratios – Capital and liquidity

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| **Regulatory capital (Rs. '000)** | | | | |
| Common equity | **161,743,687** | 138,148,271 | **154,397,407** | 132,375,019 |
| Tier 1 capital | **161,743,687** | 138,148,271 | **154,397,407** | 132,375,019 |
| Total capital | **206,898,033** | 179,968,392 | **198,689,451** | 173,756,083 |
| **Regulatory capital ratios (%)** | | | | |
| Common equity Tier 1 capital ratio (minimum requirement – 8.50%) | **11.341** | 12.049 | **11.389** | 11.923 |
| Tier 1 capital ratio (minimum requirement – 10.00%) | **11.341** | 12.049 | **11.389** | 11.923 |
| Total capital ratio (minimum requirement – 14.00%) | **14.507** | 15.696 | **14.657** | 15.650 |
| Leverage ratio (minimum requirement – 3%) | **5.66** | 5.44 | **5.56** | 5.29 |
| **Regulatory liquidity** | | | | |
| Statutory liquid assets (Rs. '000) | | | **622,692,705** | N/A |
| Statutory liquid assets ratio (minimum requirement – 20%) | | | | |
| Domestic Banking Unit (%) | | | **35.01** | 38.73 |
| Off-shore Banking Unit (%) | | | **32.37** | 36.39 |
| Consolidated (Sri Lankan Operations) (%) | | | **35.88** | N/A |
| Liquidity coverage ratio – Rupee (minimum requirement: 2022 – 90%, 2021 – 100%) (%) | | | **405.91** | 425.97 |
| Liquidity coverage ratio – All currency (minimum requirement: 2022 – 90%, 2021 – 100%) (%) | | | **293.91** | 242.52 |
| Net stable funding ratio (minimum requirement: 2022 – 90%, 2021 – 100%) (%) | | | **173.58** | 157.47 |

## Disclosure 2

### Basel III computation of capital ratios

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Common equity Tier 1 (CET1) capital after adjustments** | **161,743,687** | 138,148,271 | **154,397,407** | 132,375,019 |
| **Total common equity Tier 1 (CET1) capital** | **196,146,974** | 150,107,907 | **191,849,110** | 147,698,440 |
| Equity capital (stated capital)/Assigned Capital | **58,149,621** | 54,566,955 | **58,149,621** | 54,566,955 |
| Reserve fund | **12,079,670** | 10,590,338 | **11,352,858** | 10,204,369 |
| Published retained earnings/(Accumulated retained losses) | **5,898,150** | 4,456,337 | **4,755,271** | 3,654,269 |
| Published accumulated other comprehensive Income (OCI) | **17,825,484** | (9,337,629) | **17,440,828** | (9,597,685) |
| General and other disclosed reserves | **100,150,532** | 88,870,532 | **100,150,532** | 88,870,532 |
| Unpublished current year's profit/(losses) and gains reflected in OCI | **–** | – | **–** | – |
| Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties | **2,043,517** | 961,374 | **–** | – |

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Total adjustment to CET1 capital** | **34,403,287** | 11,959,636 | **37,451,703** | 15,323,421 |
| Goodwill (net) | **445,147** | 445,147 | **–** | – |
| Intangible assets (net) | **3,668,050** | 1,827,489 | **3,563,120** | 1,724,864 |
| Revaluation losses of property, plant and equipment | **–** | – | **–** | – |
| Significant investments in the capital of financial institutions where the Bank owns more than 10% of the issued ordinary share capital of the entity | **–** | – | **3,587,383** | 3,805,427 |
| Deferred tax assets (net) | **30,290,090** | 9,687,000 | **30,301,200** | 9,793,130 |
| **Additional Tier 1 (AT1) capital after adjustments** | **–** | – | **–** | – |
| **Total additional Tier 1 (AT1) capital** | **–** | – | **–** | – |
| Qualifying additional Tier I 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 | **–** | – | **–** | – |
| Reciprocal cross holdings in AT1 capital instruments | **–** | – | **–** | – |
| Investments in the capital of banking and financial institutions where the Bank does not own more than 10% of the issued ordinary share capital of the entity | **–** | – | **–** | – |
| Significant investments in the capital of banking and financial institutions where the bank own more than 10% of the issued ordinary share capital of the entity | **–** | – | **–** | – |
| Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover adjustments | **–** | – | **–** | – |
| **Tier 2 capital after adjustments** | **45,154,346** | 41,820,121 | **44,292,044** | 41,381,064 |
| **Total Tier 2 capital** | **45,154,346** | 41,820,121 | **44,292,044** | 41,381,064 |
| Qualifying Tier 2 capital instruments | **24,457,057** | 24,075,840 | **24,457,057** | 24,075,840 |
| Revaluation gains | **4,245,025** | 4,630,226 | **4,245,025** | 4,630,226 |
| Eligible Impairment | **16,452,264** | 13,114,055 | **15,589,962** | 12,674,998 |
| Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties | **–** | – | **–** | – |
| **Total adjustments to Tier 2 capital** | **–** | – | **–** | – |
| Investment in own shares | **–** | – | **–** | – |
| Others | **–** | – | **–** | – |
| **CET 1 capital** | **161,743,687** | 138,148,271 | **154,397,407** | 132,375,019 |
| **Total Tier 1 capital** | **161,743,687** | 138,148,271 | **154,397,407** | 132,375,019 |
| **Total capital** | **206,898,033** | 179,968,392 | **198,689,451** | 173,756,083 |
| **Total risk weighted amount (RWA)** | **1,426,170,040** | 1,146,567,889 | **1,355,629,090** | 1,110,253,962 |
| Risk weighted amount for credit risk | **1,316,181,150** | 1,049,124,433 | **1,247,196,997** | 1,013,999,808 |
| Risk weighted amount for market risk | **34,795,507** | 26,488,977 | **34,776,000** | 26,478,346 |
| Risk weighted amount for operational risk | **75,193,383** | 70,954,479 | **73,656,093** | 69,775,808 |
| CET 1 capital ratio (including capital conservation buffer, countercyclical capital buffer & surcharge on D-SIBs) (%) | **11.341** | 12.049 | **11.389** | 11.923 |
| Of which: capital conservation buffer (%) | **2.500** | 1.500 | **2.500** | 1.500 |
| Of which: countercyclical buffer (%) | **–** | – | **–** | – |
| Of which: capital surcharge on D-SIBs (%) | **1.500** | 1.500 | **1.500** | 1.500 |
| **Total Tier 1 capital ratio (%)** | **11.341** | 12.049 | **11.389** | 11.923 |
| **Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)** | **14.507** | 15.696 | **14.657** | 15.650 |
| Of which: capital conservation buffer (%) | **2.500** | 1.500 | **2.500** | 1.500 |
| Of which: countercyclical buffer (%) | **–** | – | **–** | – |
| Of which: capital surcharge on D-SIBs (%) | **1.500** | 1.500 | **1.500** | 1.500 |

## Disclosure 3
### Leverage ratio

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| **Tier 1 capital** | 161,743,687 | 138,148,271 | 154,397,407 | 132,375,019 |
| **Total exposures** | 2,856,960,615 | 2,540,662,512 | 2,777,299,175 | 2,502,461,384 |
| On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral) | 2,452,984,237 | 1,950,600,933 | 2,376,179,949 | 1,913,202,128 |
| Derivative exposures | 190,348,706 | 316,862,091 | 190,348,706 | 316,862,091 |
| Securities financing transaction exposures | 105,539,671 | 160,995,039 | 103,838,277 | 160,995,039 |
| Other off-balance sheet exposures | 108,088,001 | 112,204,449 | 106,932,243 | 111,402,126 |
| **Basel III leverage ratio (minimum requirement 3%) (%)** | 5.66 | 5.44 | 5.56 | 5.29 |

## Disclosure 4
### Liquidity coverage ratio (LCR)

| *As at December 31,* | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Total unweighted value** | **Total weighted value** | Total unweighted value | Total weighted value |
| | **Rs. '000** | **Rs. '000** | Rs. '000 | Rs. '000 |
| **Total stock of High Quality Liquid Assets (HQLA)** | 483,964,278 | 476,447,368 | 411,237,029 | 402,280,333 |
| **Total adjusted level 1 assets** | 435,146,578 | 435,146,578 | 353,800,576 | 353,800,576 |
| **Level 1 assets** | 435,146,578 | 435,146,578 | 353,800,576 | 353,800,576 |
| **Total adjusted level 2A assets** | 48,262,685 | 41,023,282 | 56,461,517 | 47,992,289 |
| **Level 2A assets** | 48,262,685 | 41,023,282 | 56,461,517 | 47,992,289 |
| **Total adjusted level 2B assets** | 555,015 | 277,508 | 974,936 | 487,468 |
| **Level 2B assets** | 555,015 | 277,508 | 974,936 | 487,468 |
| **Total cash outflows** | 2,265,841,586 | 462,213,957 | 1,800,587,157 | 346,248,270 |
| Deposits | 1,268,623,900 | 126,862,390 | 1,043,355,301 | 104,335,530 |
| Unsecured wholesale funding | 682,874,880 | 300,282,024 | 435,778,812 | 205,318,978 |
| Secured funding transaction | – | – | – | – |
| Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations | 295,415,928 | 16,142,665 | 302,262,234 | 17,402,952 |
| Additional requirements | 18,926,878 | 18,926,878 | 19,190,810 | 19,190,810 |
| **Total cash inflows** | 458,161,587 | 300,105,885 | 283,012,740 | 180,375,458 |
| Maturing secured lending transactions backed by collateral | 142,604,695 | 141,330,270 | 84,188,544 | 78,487,428 |
| Committed facilities | – | – | – | – |
| Other inflows by counterparty which are maturing within 30 calendar days | 221,927,624 | 154,828,065 | 162,950,470 | 98,932,468 |
| Operational deposits | 85,734,167 | – | 29,962,602 | – |
| Other cash inflows | 7,895,101 | 3,947,550 | 5,911,124 | 2,955,562 |
| **Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)*100 (minimum requirement – 90%)** | | 293.91 | | 242.52 |

## Disclosure 5
### Net stable funding ratio (NSFR)

| | BANK | |
|---|---|---|
| *As at December 31,* | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 |
| **Total available stable funding (ASF)** | 1,767,993,757 | 1,447,182,314 |
| **Total required stable funding (RSF)** | 1,018,567,849 | 919,021,123 |
| Required stable funding – On balance sheet assets | 1,013,512,135 | 909,050,700 |
| Required stable funding – Off balance sheet items | 5,055,714 | 9,970,423 |
| **NSFR (minimum requirement – 90%) (%)** | 173.58 | 157.47 |

## Disclosure 6

### Main features of regulatory capital instruments

| Description of the capital Instrument | Stated capital | 2016-2026 listed rated unsecured subordinated redeemable debentures | 2016-2026 listed rated unsecured subordinated redeemable debentures | 2018-2023 Basel III compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability conversion | 2018-2028 Basel III Compliant – Tier 2 listed rated unsecured subordinated redeemable debentures with a non-viability Conversion |
|---|---|---|---|---|---|
| Issuer | Commercial Bank | Commercial Bank | Commercial Bank | Commercial Bank | Commercial Bank |
| **Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)** | | | | | |
| Governing law(s) of the instrument | Sri Lanka | Sri Lanka | Sri Lanka | Sri Lanka | Sri Lanka |
| Original date of issuance | N/A | March 9, 2016 | October 28, 2016 | July 23, 2018 | July 23, 2018 |
| Par value of instrument | | Rs. 100/- | Rs. 100/- | Rs. 100/- | Rs. 100/- |
| Perpetual or dated | Perpetual | Dated | Dated | Dated | Dated |
| Original maturity date, if applicable | N/A | March 8, 2026 | October 27, 2026 | July 22, 2023 | July 22, 2028 |
| Amount recognised in regulatory capital (in Rs. '000 as at the reporting date) | 58,149,621 | 1,136,909 | 1,542,560 | 1,259,076 | 1,606,160 |
| Accounting classification (equity/liability) | Equity | Liability | Liability | Liability | Liability |
| **Issuer call subject to prior supervisory approval** | | | | | |
| Optional call date, contingent call dates and redemption amount (Rs. '000) | N/A | N/A | N/A | N/A | N/A |
| Subsequent call dates, if applicable | N/A | N/A | N/A | N/A | N/A |
| **Coupons/dividends:** | | | | | |
| Fixed or floating dividend/coupon | N/A | Fixed | Fixed | Fixed | Fixed |
| Coupon rate and any related index | | 11.25% p.a. | 12.25% p.a. | 12.00% p.a. | 12.50% p.a. |
| Non-cumulative or cumulative | Non-cumulative | Cumulative | Cumulative | Cumulative | Cumulative |
| **Convertible or non-convertible** | | | | | |
| If convertible, conversion trigger (s) | N/A | Not Convertible | Not Convertible | A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be affected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Direction No. 1 of 2016 of Web-Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." | A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e., conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." |
| If convertible, fully or partially | N/A | N/A | N/A | Fully | Fully |
| If convertible, mandatory or optional | N/A | N/A | N/A | Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. | Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. |
| If convertible, conversion rate | N/A | N/A | N/A | The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. | The price based on the simple average of the daily volume of weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. |

| 2021-2026 Basel III Compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non - viability Conversion | 2021-2028 Basel III Compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non-viability Conversion | 2022-2027 Basel III Compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non-viability Conversion | 2022-2029 Basel III Compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non-viability Conversion | 2022-2032 Basel III Compliant – Tier 2 Listed Rated Unsecured Subordinated Redeemable Debentures with a Non-viability Conversion | 2013-2023 Floating rate subordinated loans – Tier 2 IFC borrowing |
|---|---|---|---|---|---|
| Commercial Bank | Commercial Bank | Commercial Bank | Commercial Bank | Commercial Bank | International Finance Corporation |
| Sri Lanka | Sri Lanka | Sri Lanka | Sri Lanka | Sri Lanka | United States |
| September 21, 2021 | September 21, 2021 | December 12, 2022 | December 12, 2022 | December 12, 2022 | March 13, 2013 |
| Rs. 100/- | Rs. 100/- | Rs. 100/- | Rs. 100/- | Rs. 100/- | |
| Dated | Dated | Dated | Dated | Dated | Dated |
| September 20, 2026 | September 20, 2028 | December 11, 2027 | December 11, 2029 | December 11, 2032 | March 14, 2023 |
| 3,178,103 | 4,358,000 | 6,724,680 | 3,263,820 | 11,500 | 1,376,250 |
| Liability | Liability | Liability | Liability | Liability | Liability |
| N/A | N/A | N/A | N/A | N/A | N/A |
| N/A | N/A | N/A | N/A | N/A | N/A |
| Fixed | Fixed | Fixed | Fixed | Fixed | Floating |
| 9.00% p.a. | 9.50% p.a. | 28.00% p.a. | 27.00% p.a. | 22.00% p.a. | 6 Months LIBOR + 5.75% |
| Cumulative | Cumulative | Cumulative | Cumulative | Cumulative | Cumulative |
| A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." | A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act 0Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." | A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." | A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." | A "Trigger Event" is determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka (i.e. conversion of the said Debentures upon occurrence of the Trigger Event will be effected by the Bank solely upon being instructed by the Monetary Board of the Central Bank of Sri Lanka), and is defined in the Banking Act Directions No. 1 of 2016 of Web Based Return Code 20.2.3.1.1.1.(10) (iii) (a&b) as a point/event being the earlier of:<br>(a) A decision that a write-down, without which the Bank would become non-viable, is necessary, as determined by the Monetary Board, OR<br>(b) The decision to make a public sector injection of capital, or equivalent support, without which the Bank would have become non-viable, as determined by the Monetary Board." | Not Convertible |
| Fully | Fully | Fully | Fully | Fully | Not Applicable |
| Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. | Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. | Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. | Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. | Optional. At the discretion of the monetary board of the Central Bank of Sri Lanka upon occurrence of trigger points as detailed above. | Not Applicable |
| The price based on the simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. | The price based on the simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. | The price based on the simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. | The price based on the simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. | The price based on the simple average of the daily volume weighted average price (VWAP) of an ordinary voting share of the Bank during the three (03) months period, immediately preceding the date of the Trigger Event. | Not Applicable |

## Disclosure 7

### Summary discussion on adequacy/meeting current and future capital requirements

The Bank prepares the Corporate Plan and Budget for a period of 5 years which is rolled over every year and contains the forecast for key ratios mentioned under Basel III accord including the Capital Adequacy ratios (CARs).

As part of the budgeting process the CARs are computed based on the movements in risk-weighted assets underlying the budgeted expansion of assets, including business volumes. The Bank has set up an internal threshhold on minimum CARs and ensures that appropriate measures are taken to maintain the CARs above the said threshhold in preparing the budget. The budget also captures the capital augmentation plan covering both internal and external capital sources. The Bank has a well established monitoring mechanism to periodically monitor the level of achievement against pre-determined targets to take timely corrective action in case of significant deviations.

Additionally, the Bank has a dynamic ICAAP process with rigorous stress testing embodied in addition to taking into consideration the qualitative aspects such as reputational and strategic risks. The ICAAP process also computes the concentration risk ensuring that the Bank has a well-diversified assets portfolio which is not overly exposed to any individual counterparty or sector. In addition ICAAP process also captures the residual risk to assess the amount of risk that remains after controls are accounted for. This process also proactively identifies the possible gaps in CARs in advance, allowing the Bank to take calculated decisions to optimise utilisation of capital.

Methods of improving the CARs are being evaluated on an ongoing basis and in extreme situations, the Bank will deliberate on strategically curtailing the expansion of risk weighted assets. However, prior to taking such decisions, the Bank will assess the impact on the internally developed thresholds of minimum CARs resulting from the short-term asset expansion plans. The Bank is committed to maintaining the internal CAR thresholds despite any leniency provided by Central Bank of Sri Lanka (CBSL) during adverse times.

The Bank's capital adequacy as at March 31, 2022, for the first time, dropped below the regulatory minimum to 13.087%. In June 2022, the Bank's capital adequacy remained below the regulatory minimum at 13.528%, effectively resulting in a drawdown of the Capital Conservation Buffer (CCB) as per the Banking Act Direction No. 04 of 2022, dated May 23, 2022, which allows licensed banks to drawdown CCB up to 2.5% subject to the conditions stipulated in the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for licensed commercial banks and licensed specialised banks. In line with this Direction the Bank submitted a Board-approved capital augmentation plan towards rebuilding the CCB to 2.5% within 3 years as required by the said Direction. Due to the actions taken, the Bank was able to record CAR's above the minimum regulatory levels for the 3rd and 4th quarters of 2022.

When deciding the dividend for Financial Year 2022, the Bank carried out numerous analysis to identify the most feasible dividend payout, while ensuring a sustainable growth for Financial Year 2023. The dividend proposed by the Bank is also in consideration of the Direction No. 01 of 2023 issued by CBSL on 02 February 2023, which states that 'Licensed banks shall give due consideration to the requirements of the Banking Act Direction No. 01 of 2016 on Capital Requirements under Basel III for Licensed Banks, expected assets growth, business expansion and the potential impact of the prevailing macro-economic conditions when deciding on payments of cash dividends and repatriation of profits for the year 2022' and 'Licensed banks shall inform the Director of Bank Supervision, the Board approved detailed assessment carried out in deciding the payments of cash dividends and repatriation of profits for the year 2022, prior to payment of such dividend/repatriation of profits.' The dividend is proposed also ensuring the Bank maintains a quarterly CAR above the minimum thresholds as per the Basel III guidelines, taking into account capital augmentation plans for the year.

A comprehensive analysis of "Managing Funding and Liquidity" given on page 64.

## Disclosure 8

### Credit risk under standardised approach

### Credit risk exposures and credit risk mitigation (CRM) effects

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| *As at December 31, 2022* | Exposures before credit conversion factor (CCF) and CRM | | Exposures post CCF and CRM | | RWA and RWA density (%) | |
| | On-balance sheet amount (a) Rs. '000 | Off-balance sheet amount (b) Rs. '000 | On-balance sheet amount (c) Rs. '000 | Off-balance sheet amount (d) Rs. '000 | RWA (e) Rs. '000 | RWA density {e/(c+d)} (%) |
| Claims on Central Government and Central Bank of Sri Lanka | 866,252,166 | 59,087,000 | 866,252,166 | 1,181,740 | 30,787,626 | 3.55 |
| Claims on Foreign Sovereigns and their Central Banks | 106,259,314 | – | 106,259,314 | – | 106,259,314 | 100.00 |
| Claims on Public Sector Entities (PSEs) | 5,333,014 | – | 5,333,014 | – | 1,066,603 | 20.00 |
| Claims on Official Entities and Multilateral Development Banks(MDBs) | 2,088,501 | – | 2,088,501 | – | – | – |
| Claims on Banks Exposures | 199,077,448 | 37,334,432 | 199,077,448 | 6,221,731 | 98,272,251 | 47.87 |
| Claims on Financial Institutions | 14,358,293 | – | 14,358,293 | – | 7,636,972 | 53.19 |
| Claims on Corporates | 695,782,201 | 429,119,443 | 626,100,186 | 80,064,554 | 667,111,184 | 94.47 |
| Retail Claims | 336,600,006 | 16,846,394 | 290,382,318 | 11,004,692 | 230,215,654 | 76.39 |
| Claims Secured by Residential Property | 86,363,440 | – | 86,363,440 | – | 49,885,641 | 57.76 |
| Claims Secured by Commercial Real Estate | – | – | – | – | – | – |
| Non-Performing Assets (NPAs) | 68,099,240 | – | 68,099,240 | – | 78,826,614 | 115.75 |
| Higher-risk Categories | – | – | – | – | – | – |
| Cash Items and Other Assets | 100,013,016 | – | 100,013,016 | – | 46,119,291 | 46.11 |
| **Total** | **2,480,226,639** | **542,387,269** | **2,364,326,936** | **98,472,717** | **1,316,181,150** | **53.44** |

### Credit risk exposures and credit risk mitigation (CRM) effects (Contd.)

| | BANK | | | | | |
|---|---|---|---|---|---|---|
| *As at December 31, 2022* | 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 (b) | On-balance sheet amount (c) | Off-Balance Sheet Amount (d) | RWA (e) | RWA density {e/(c+d)} |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | (%) |
| Claims on Central Government and Central Bank of Sri Lanka | 864,597,453 | 59,087,000 | 864,597,453 | 1,181,740 | 30,787,626 | 3.56 |
| Claims on foreign sovereigns and their central banks | 58,499,578 | - | 58,499,578 | - | 58,499,578 | 100.00 |
| Claims on public sector entities (PSEs) | 5,333,014 | - | 5,333,014 | - | 1,066,603 | 20.00 |
| Claims on Official Entities and Multilateral Development Banks (MDBs) | 2,088,501 | - | 2,088,501 | - | - | - |
| Claims on Banks exposures | 198,236,270 | 37,334,432 | 198,236,270 | 6,221,731 | 97,431,073 | 47.65 |
| Claims on financial institutions | 14,358,293 | - | 14,358,293 | - | 7,636,972 | 53.19 |
| Claims on corporates | 671,555,569 | 427,538,094 | 605,533,320 | 78,908,796 | 645,388,560 | 94.29 |
| Retail claims | 336,600,006 | 16,846,394 | 290,382,318 | 11,004,692 | 230,215,654 | 76.39 |
| Claims secured by residential property | 86,363,440 | - | 86,363,440 | - | 49,885,641 | 57.76 |
| Claims Secured by Commercial Real Estate | - | - | - | - | - | - |
| Non-performing assets (NPAs) | 67,622,236 | - | 67,622,236 | - | 78,349,610 | 115.86 |
| Higher-risk Categories | 1,579,848 | - | 1,579,848 | - | 3,949,620 | 250.00 |
| Cash items and other assets | 96,821,792 | - | 96,821,792 | - | 43,986,060 | 45.43 |
| **Total** | 2,403,656,000 | 540,805,920 | 2,291,416,063 | 97,316,959 | 1,247,196,997 | 52.21 |

## Disclosure 9

### Credit risk under standardised approach

### Exposures by asset classes and risk weights (Post CCF and CRM)

| | GROUP | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *As at December 31, 2022* | 0% | 20% | 35% | 50% | 60% | 75% | 100% | 150% | >150% | Total credit exposures amount |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Claims on Central Government and Central Bank of Sri Lanka | 713,495,777 | 153,938,129 | – | – | – | – | – | – | – | 867,433,906 |
| Claims on Foreign Sovereigns and their Central Banks | – | – | – | – | – | – | 106,259,314 | – | – | 106,259,314 |
| Claims on Public Sector Entities (PSEs) | – | 5,333,014 | – | – | – | – | – | – | – | 5,333,014 |
| Claims on Official Entities and Multilateral Development Banks(MDBs) | 2,088,501 | – | – | – | – | – | – | – | – | 2,088,501 |
| Claims on Banks Exposures | – | 113,795,464 | – | 31,981,117 | – | – | 59,522,598 | – | – | 205,299,179 |
| Claims on Financial Institutions | – | 187,823 | – | 13,142,127 | – | – | 1,028,343 | – | – | 14,358,293 |
| Claims on Corporates | – | 23,217,318 | – | 40,959,404 | – | – | 641,988,018 | – | – | 706,164,740 |
| Retail Claims | 13,596,731 | 1,981,722 | – | – | 40,811,529 | 158,658,541 | 86,338,487 | – | – | 301,387,010 |
| Claims Secured by Residential Property | – | – | 56,119,691 | – | – | – | 30,243,749 | – | – | 86,363,440 |
| Claims Secured by Commercial Real Estate | – | – | – | – | – | – | – | – | – | – |
| Non-Performing Assets (NPAs) | – | – | – | 359,551 | – | – | 45,925,392 | 21,814,297 | – | 68,099,240 |
| Higher-risk Categories | – | – | – | – | – | – | – | – | – | – |
| Cash Items and Other Assets | 46,369,808 | 9,404,896 | – | – | – | – | 44,238,312 | – | – | 100,013,016 |
| **Total** | 775,550,817 | 307,858,366 | 56,119,691 | 86,442,199 | 40,811,529 | 158,658,541 | 1,015,544,213 | 21,814,297 | – | 2,462,799,653 |

## Exposures by asset classes and risk weights (post CCF and CRM) (Contd.)

| | BANK | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *As at December 31, 2022* | 0% | 20% | 35% | 50% | 60% | 75% | 100% | 150% | >150% | Total credit exposures amount |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Claims on Central Government and Central Bank of Sri Lanka | 711,841,064 | 153,938,129 | – | – | – | – | – | – | – | 865,779,193 |
| Claims on Foreign Sovereigns and their Central Banks | – | – | – | – | – | – | 58,499,578 | – | – | 58,499,578 |
| Claims on Public Sector Entities (PSEs) | – | 5,333,014 | – | – | – | – | – | – | – | 5,333,014 |
| Claims on Official Entities and Multilateral Development Banks(MDBs) | 2,088,501 | – | – | – | – | – | – | – | – | 2,088,501 |
| Claims on Banks Exposures | – | 113,795,464 | – | 31,981,117 | – | – | 58,681,420 | – | – | 204,458,001 |
| Claims on Financial Institutions | – | 187,823 | – | 13,142,127 | – | – | 1,028,343 | – | – | 14,358,293 |
| Claims on Corporates | – | 23,217,318 | – | 40,959,404 | – | – | 620,265,394 | – | – | 684,442,116 |
| Retail Claims | 13,596,731 | 1,981,722 | – | – | 40,811,529 | 158,658,541 | 86,338,487 | – | – | 301,387,010 |
| Claims Secured by Residential Property | – | – | 56,119,691 | – | – | – | 30,243,749 | – | – | 86,363,440 |
| Claims Secured by Commercial Real Estate | – | – | – | – | – | – | – | – | – | – |
| Non-Performing Assets (NPAs) | – | – | – | 359,551 | – | – | 45,448,388 | 21,814,297 | – | 67,622,236 |
| Higher-risk Categories | – | – | – | – | – | – | – | – | 1,579,848 | 1,579,848 |
| Cash Items and Other Assets | 45,311,815 | 9,404,896 | – | – | – | – | 42,105,081 | – | – | 96,821,792 |
| **Total** | 772,838,111 | 307,858,366 | 56,119,691 | 86,442,199 | 40,811,529 | 158,658,541 | 942,610,440 | 21,814,297 | 1,579,848 | 2,388,733,022 |

## Disclosure 10

### Market risk under standardised measurement method

| | GROUP | | BANK | |
|---|---|---|---|---|
| *As at December 31,* | **2022** | 2021 | **2022** | 2021 |
| | **Rs. '000** | Rs. '000 | **Rs. '000** | Rs. '000 |
| (a) Capital charge for interest rate risk | 3,111,900 | 2,581,624 | 3,111,900 | 2,581,624 |
| General interest rate risk | 423,149 | 652,661 | 423,149 | 652,661 |
| (i) Net long or short position | 423,149 | 652,661 | 423,149 | 652,661 |
| (ii) Horizontal disallowance | – | – | – | – |
| (iii) Vertical disallowance | – | – | – | – |
| (iv) Options | – | – | – | – |
| Specific interest rate risk | 2,688,751 | 1,928,963 | 2,688,751 | 1,928,963 |
| (b) Capital charge for equity | 562,758 | 405,300 | 562,758 | 405,300 |
| (i) General equity risk | 283,473 | 207,593 | 283,473 | 207,593 |
| (ii) Specific equity risk | 279,285 | 197,707 | 279,285 | 197,707 |
| (c) Capital charge for foreign exchange and gold | 1,196,713 | 456,643 | 1,193,982 | 455,261 |
| (d) Capital charge for market risk [(a) + (b) + (c)] | 4,871,371 | 3,443,567 | 4,868,640 | 3,442,185 |
| Total risk - weighted amount for Market Risk [ ( d )*100 / CAR ] | 34,795,507 | 26,488,977 | 34,776,000 | 26,478,346 |

## Disclosure 11

### Operational risk under the Alternative Standardised Approach (ASA) – Group

| *As at December 31,* | | | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Gross income | | | Gross income | | |
| | Capital charge factor | Fixed factor | 1st year | 2nd year | 3rd year | 1st year | 2nd year | 3rd year |
| | % | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Corporate finance | 18 | | 160,423 | 285,894 | 385,666 | 167,464 | 157,810 | 285,894 |
| Trading and sales | 18 | | 7,747,013 | 18,704,206 | (8,868,815) | 3,852,135 | 7,747,014 | 18,704,206 |
| Payment and settlement | 18 | | 730,737 | 1,575,958 | 1,140,451 | 690,845 | 730,737 | 1,575,958 |
| Agency services | 15 | | – | – | – | – | – | – |
| Asset management | 12 | | – | – | – | – | – | – |
| Retail brokerage | 12 | | – | – | – | – | – | – |
| Sub total (a) | | | 8,638,173 | 20,566,058 | (7,342,698) | 4,710,444 | 8,635,561 | 20,566,058 |
| Retail banking (Loans and advances) | 12 | 0.035 | 513,177,931 | 550,644,113 | 604,715,367 | 487,202,436 | 513,177,931 | 550,644,113 |
| Commercial banking (Loans and advances) | 15 | 0.035 | 927,864,854 | 1,220,373,745 | 1,531,114,412 | 719,146,950 | 927,864,854 | 1,220,373,745 |
| Sub total (b) | | | 1,441,042,785 | 1,771,017,858 | 2,135,829,779 | 1,206,349,386 | 1,441,042,785 | 1,771,017,858 |
| Total (a) + (b) | | | 1,449,680,958 | 1,791,583,916 | 2,128,487,081 | 1,211,059,830 | 1,449,678,346 | 1,791,583,916 |
| Capital charge for operational risk | | | 8,581,508 | 12,421,557 | 10,578,156 | 6,669,652 | 8,581,039 | 12,421,558 |
| Average capital charge (c) | | | | | 10,527,074 | | | 9,224,083 |
| RWA for operational risk [(c)*100/ CAR] | | | | | 75,193,383 | | | 70,954,479 |

### Operational risk under the Alternative Standardised Approach (ASA) – Bank

| *As at December 31,* | | | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Gross income | | | Gross income | | |
| | Capital charge factor | Fixed factor | 1st year | 2nd year | 3rd year | 1st year | 2nd year | 3rd year |
| | % | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Corporate finance | 18 | | 160,423 | 285,894 | 385,666 | 167,464 | 157,810 | 285,894 |
| Trading and sales | 18 | | 7,414,973 | 18,457,279 | (9,362,313) | 3,661,995 | 7,414,971 | 18,457,281 |
| Payment and settlement | 18 | | 730,737 | 1,575,958 | 1,140,451 | 690,845 | 730,737 | 1,575,958 |
| Agency services | 15 | | – | – | – | – | – | – |
| Asset management | 12 | | – | – | – | – | – | – |
| Retail brokerage | 12 | | – | – | – | – | – | – |
| Sub total (a) | | | 8,306,133 | 20,319,131 | (7,836,196) | 4,520,304 | 8,303,518 | 20,319,133 |
| Retail banking (Loans and advances) | 12 | 0.035 | 506,645,437 | 542,594,578 | 596,509,725 | 481,442,015 | 506,645,437 | 542,594,578 |
| Commercial banking (Loans and advances) | 15 | 0.035 | 913,988,024 | 1,199,495,133 | 1,480,967,025 | 708,987,024 | 913,988,024 | 1,199,495,133 |
| Sub total (b) | | | 1,420,633,461 | 1,742,089,711 | 2,077,476,750 | 1,190,429,039 | 1,420,633,461 | 1,742,089,711 |
| Total (a) + (b) | | | 1,428,939,594 | 1,762,408,842 | 2,069,640,554 | 1,194,949,343 | 1,428,936,979 | 1,762,408,844 |
| Capital charge for operational risk | | | 8,421,452 | 12,233,689 | 10,280,418 | 6,557,893 | 8,420,981 | 12,233,691 |
| Average capital charge (c) | | | | | 10,311,853 | | | 9,070,855 |
| RWA for operational risk [(c)*100/ CAR] | | | | | 73,656,093 | | | 69,775,808 |

## Disclosure 12

### Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank

| *As at December 31, 2022* | a | b | c | d | e |
|---|---|---|---|---|---|
| | **Carrying values as reported in published financial statements** | **Carrying values under scope of regulatory reporting** | **Subject to credit risk framework** | **Subject to market risk framework** | **Not subject to capital requirements or subject to deduction from capital** |
| | **Rs. '000** | **Rs. '000** | **Rs. '000** | **Rs. '000** | **Rs. '000** |
| **Assets** | 2,425,798,032 | 2,425,798,032 | 2,403,656,000 | 24,873,057 | 37,451,706 |
| Cash and cash equivalents | 149,393,611 | 149,393,611 | 149,393,611 | – | |
| Balances with Central Banks | 66,493,499 | 66,493,499 | 66,493,499 | – | – |
| Placements with banks | 95,899,645 | 95,899,645 | 95,899,645 | – | – |
| Securities purchased under re-sale agreements | 1,517,308 | 1,517,308 | 1,517,308 | – | – |
| Derivative financial assets | 8,345,091 | 8,345,091 | 8,345,091 | – | – |
| Financial assets recognised through profit or loss – Measured at fair value | 24,873,057 | 24,873,057 | – | 24,873,057 | – |
| Financial assets at amortised cost – Loans and advances to other customers | 1,130,442,579 | 1,130,442,579 | 1,170,625,310 | – | – |
| Financial assets at amortised cost – Debt and other financial instruments | 725,935,299 | 725,935,299 | 725,935,299 | – | – |
| Financial assets measured at fair value through other comprehensive income | 117,056,240 | 117,056,240 | 117,056,240 | – | – |
| Investments in subsidiaries | 5,808,429 | 5,808,429 | 2,221,046 | – | 3,587,383 |
| Investment in associate | 44,331 | 44,331 | 44,331 | – | – |
| Property, plant and equipment and right-of-use assets | 25,425,452 | 25,425,452 | 25,425,452 | – | – |
| Intangible assets | 3,563,120 | 3,563,120 | – | – | 3,563,120 |
| Deferred tax assets | 30,301,203 | 30,301,203 | – | – | 30,301,203 |
| Other assets | 40,699,168 | 40,699,168 | 40,699,168 | – | – |
| **Liabilities** | 2,222,099,356 | 2,222,099,356 | – | – | – |
| Due to banks | 65,130,061 | 65,130,061 | – | – | – |
| Derivative financial liabilities | 2,880,667 | 2,880,667 | – | – | – |
| Securities sold under repurchase agreements | 97,726,435 | 97,726,435 | – | – | – |
| Financial liabilities at amortised cost – Due to depositors | 1,914,359,494 | 1,914,359,494 | – | – | – |
| Financial liabilities at amortised cost – Other borrowings | 16,150,356 | 16,150,356 | – | – | – |
| Current tax liabilities | 24,475,319 | 24,475,319 | – | – | – |
| Deferred tax liabilities | – | – | – | – | – |
| Other liabilities | 39,860,573 | 39,860,573 | – | – | – |
| Due to subsidiaries | 115,484 | 115,484 | – | – | – |
| Subordinated liabilities | 61,400,967 | 61,400,967 | – | – | – |
| **Off-balance sheet liabilities** | 549,421,699 | 549,421,699 | 540,805,920 | – | – |
| Guarantees | 62,296,878 | 62,296,878 | 58,422,006 | – | – |
| Performance bonds | 71,888,851 | 71,888,851 | 71,888,851 | – | – |
| Letter of credit | 49,339,057 | 49,339,057 | 49,339,057 | – | – |
| Other contingent items | 231,710,737 | 231,710,737 | 229,090,888 | – | – |
| Undrawn loan commitments | 132,065,118 | 132,065,118 | 132,065,118 | – | – |
| Other commitments | 2,121,058 | 2,121,058 | – | – | – |

## Differences between accounting and regulatory scopes and mapping of financial statement categories with regulatory risk categories – Bank (Contd.)

| *As at December 31, 2022* | a | b | c | d | e |
|---|---|---|---|---|---|
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory reporting | Subject to credit risk framework | Subject to market risk framework | Not subject to capital requirements or subject to deduction from capital |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| **Shareholders' equity** | **203,698,676** | **203,698,676** | – | – | – |
| Equity capital (stated capital)/assigned capital: | | | | | |
| Of which amount eligible for CET1 | 58,149,621 | 58,149,621 | – | – | – |
| Of which amount eligible for AT1 | – | – | – | – | – |
| Retained earnings | 5,592,121 | 5,592,121 | – | – | – |
| Accumulated other comprehensive income | 78,741 | 78,741 | – | – | – |
| Other reserves | 139,878,193 | 139,878,193 | – | – | – |

## Disclosure 13

### Bank Risk Management Approach

Effective risk management is at the core of the Bank's value creation model as we accept risk in the normal course of business. Significant resources are devoted to this critical function to ensure that it is well articulated, communicated and understood by all employees of the Bank as it is a shared responsibility. It is a dynamic and disciplined function increasing in sophistication and subject to stringent oversight by regulators and other stakeholders. The overarching objectives are to ensure that risks accepted are in line with the Bank's risk appetite and strategic priorities and that there is an appropriate trade-off between risk and reward enabling delivery of value to key stakeholders." The risk governance structure, responsibilities attributed throughout the bank, risk management framework, objectives, strategies, policy framework, risk appetite and tolerance limits for key risk types, and the overall risk management approach of the Bank are discussed in the section on "Risk Governance and Management" on pages 203 to 228.

## Disclosure 14

### Risk management related to key risk exposures

The quantitative disclosures relating to key risk areas such as credit, market, liquidity, operational, and interest rate risk in the banking book are presented and discussed in the Section on "Risk Governance and Management" on pages 203 to 228 and in Note 66 of the Financial Statements on Financial Risk Review on pages 358 to 386.

## D-SIB Assessment Exercise (As per the CBSL Direction No. 10 of 2019)

| | GROUP | |
|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 |
| **Size Indicator** | | |
| **Section 1 – Total Exposures** | | |
| **Total exposures measure** | **2,856,960,615** | 2,540,662,511 |
| **Interconnectedness Indicators** | | |
| **Section 2 – Intra-Financial System Assets** | | |
| a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended) ( i + ii ) | **211,206,903** | 63,989,509 |
| (i) Funds deposited | **199,077,447** | 50,149,790 |
| (ii) Lending | **12,129,456** | 13,839,719 |
| b. Holdings of securities issued by other financial institutions | **2,228,837** | 1,292,987 |
| c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions | **753,377** | 2,531,984 |
| d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to market value | **7,917,582** | 4,069,292 |
| **Intra-financial system assets (a + b + c + d)** | **222,106,699** | 71,883,772 |
| **Section 3 – Intra-Financial System Liabilities** | | |
| a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained) | **114,365,898** | 130,831,756 |
| (i) Funds deposited | **32,419,099** | 18,622,547 |
| (ii) Borrowings | **81,946,799** | 112,209,209 |
| b. Net negative current exposure of securities financing transactions with other financial institutions | **(103,890)** | 295,021 |
| c. Over-the-counter derivatives with other financial institutions that have a net negative mark to market value | **1,100,998** | 1,671,733 |
| **Intra-financial system liabilities (a + b + c)** | **115,363,006** | 132,798,510 |
| **Section 4 – Securities Outstanding** | | |
| **Securities outstanding** | **32,272,760** | 22,204,430 |
| **Substitutability/Financial Institution Infrastructure Indicators** | | |
| **Section 5 – Payments made in the reporting year (excluding intragroup payments)** | | |
| **Payments activity** | **12,697,577,820** | 10,017,954,179 |

| | GROUP | |
|---|---|---|
| | **2022 Rs. '000** | 2021 Rs. '000 |
| **Section 6 – Assets Under Custody** | | |
| **Assets under custody** | **3,726,558** | 8,011,578 |
| **Section 7 – Underwritten Transactions in Debt and Equity Markets** | | |
| **Underwriting activity** | **–** | – |
| **Section 8 – Trading Volume** | | |
| a. number of shares or securities | **7,089** | 9,242 |
| b. value of the transactions | **349,929** | 533,950 |
| **Trading Volume (a+b)** | **357,018** | 543,192 |
| **Complexity indicators** | | |
| **Section 9 – Notional Amount of Over-the-Counter (OTC) Derivatives** | | |
| **OTC derivatives** | **128,727,586** | 222,505,837 |
| **Section 10 – Level 2 Assets** | | |
| **Level 2 assets** | **48,817,700** | 57,436,453 |
| **Section 11 – Trading and available for sale (AFS) securities** | | |
| a. debt instruments | **143,309,257** | 363,949,718 |
| b. equity instruments | **216,057** | 449,856 |
| c. derivatives | **8,345,091** | 3,245,120 |
| **Trading and available for sale (AFS) securities (a+b+c)** | **151,870,405** | 367,644,694 |
| **Section 12 – Cross-Jurisdictional Liabilities** | | |
| **Cross-jurisdictional liabilities (excluding derivatives and intragroup liabilities)** | **207,509,927** | 147,024,936 |
| **Section 13 – Cross-Jurisdictional Claims** | | |
| **Cross-jurisdictional claims (excluding derivatives and intragroup claims)** | **226,229,242** | 66,100,684 |

# Annex 3: GRI Content Index

| | |
|---|---|
| **Statement of use** | **Commercial Bank of Ceylon PLC has reported in accordance with the GRI Standards for the period January 1, 2022 to December 31, 2022.** |
| **GRI 1 used** | **GRI 1: Foundation 2021** |

| GRI Standard/Disclosure | | Location | | Omission | | |
|---|---|---|---|---|---|---|
| | | Page No. | Report commentary title | Requirement(s) Omitted | Reason | Explanation |
| GRI 2: General Disclosures 2021 | | | | | | |
| 2-1 | Organisational details | Inner Back Cover | Corporate Information | | | |
| | | 10 | Organisational Overview – About the Bank | | | |
| 2-2 | Entities included in the organisation's sustainability reporting | 6 | Introducing our 54th Annual Report – "Report boundary" | | | |
| 2-3 | Reporting period, frequency and contact point | 5 | Introducing our 54th Annual Report – "The Journey so Far" | | | |
| | | 8 | Introducing our 54th Annual Report – "Contact" | | | |
| 2-4 | Restatements of information | 6 | Introducing our 54th Annual Report – "Report boundary" | | | |
| 2-5 | External assurance | 4 | Annual Report of the Board of Directors – "External Assurances" | | | |
| | | 7 | Introducing our 54th Annual Report – "Responsibility for sustainability practices and external assurance" | | | |
| | | 433 and 434 | Annex 6- Independent Assurance Reports | | | |
| 2-6 | Activities, value chain and other business relationships | 10 | Organisational Overview – About the Bank | | | |
| | | 54 and 55 | Business Model for Sustainable Value Creation | | | |
| | | 89 | Sustainable Supply Chain | | | |
| 2-7 | Employees | 87 | Table – 19 Employees by Type and Gender – Bank | | | |
| 2-8 | Workers who are not employees | 87 | Table – 19 Employees by Type and Gender – Bank | | | |
| 2-9 | Governance structure and composition | 138 to145, 157 and 158 and 160 and 161 | Governance and Risk Management | | | |
| 2-10 | Nomination and selection of the highest governance body | 164 and 165 | Appointments and retirements/ resignations of Directors (Principle A.7) | | | |
| | | 165 | Re-election/election of Directors (Principle A.8) | | | |
| | | 175 and 176 | Report of the Board Nomination Committee | | | |
| 2-11 | Chair of the highest governance body | 164 | Segregation of roles of Chairman and Chief Executive Officer (Principles A.2 and A.3) | | | |
| 2-12 | Role of the highest governance body in overseeing the management of impacts | 154 and 155 | Annual Corporate Governance Report | | | |
| | | 163 | Roles, responsibilities, and powers of the Board (Principles A.1.2 and A.1.3) and Board's role in risk management (Principle D.2) | | | |
| | | 164 | Segregation of roles of Chairman and Chief Executive Officer & Role of Independent Non-Executive Directors (Principles A.2 and A.3) | | | |
| | | 166 | Shareholder engagement and voting (Principles C.1, C.2, E, and F) | | | |

| GRI Standard/Disclosure | | Location | | Omission | | |
|---|---|---|---|---|---|---|
| | | Page No. | Report commentary title | Requirement(s) Omitted | Reason | Explanation |
| 2-13 | Delegation of responsibility for managing impacts | 440 and 441 | The Bank's Organisation Structure | | | |
| | | 155 | Bank's approach to governance | | | |
| | | 158 | Figure 21 Governance structure | | | |
| | | 161 and 162 | Executive Management Committee and Management Committees | | | |
| 2-14 | Role of the highest governance body in sustainability reporting | 7 | Responsibility for sustainability practices and external assurance | | | |
| | | 42 | Material Matters – "Management Approach" | | | |
| | | 52 and 53 | Bank's Sustainability Framework | | | |
| | | 162 | Executive Sustainability Committee (ESC) | | | |
| | | 163 | Roles, responsibilities, and powers of the Board (Principles A.1.2 and A.1.3) | | | |
| 2-15 | Conflicts of interest | 159 | Conflicts of interest (Principle A.10) | | | |
| | | 179 and 180 | Report of the Board Related Party Transactions Review Committee | | | |
| | | 201 and 202 | Directors' Interest in Contracts with the Bank | | | |
| | | 352 to 356 | Note 62 to the Financial Statements – Related party disclosures | | | |
| 2-16 | Communication of critical concerns | 157 | Board process (Principles A.1.6, A.1.7, and A.6) | | | |
| | | 159 and 160 | Board meetings (Principle A.1.1) | | | |
| | | 167 | Whistleblowing | | | |
| 2-17 | Collective knowledge of the highest governance body | 157 | Diversity and inclusion | | | |
| | | 160 | Board of Directors' industry/background experience | | | |
| | | 165 | Induction and training of Directors (Principle A.1.8) | | | |
| 2-18 | Evaluation of the performance of the highest governance body | 166 | Board and Board Committee evaluations (Principle A.9) | | | |
| 2-19 | Remuneration policies | 165 | Directors' and Executive remuneration (Principles A.10, B.1 and B.3) | | | |
| | | 177 and 178 | Report of the Board Human Resources and Remuneration Committee | | | |
| 2-20 | Process to determine remuneration | 165 and 166 | The level and make-up of remuneration (Principle B.2) | | | |
| | | 177 and 178 | Report of the Board Human Resources and Remuneration Committee | | | |
| 2-21 | Annual total compensation ratio | – | | 2-21 | Confidentiality constraints | Industry does not disclose this information due to confidentiality reasons. |
| 2-22 | Statement on sustainable development strategy | 30 to 33 | Managing Director/Chief Executive Officer's Review – "Advancing sustainability" | | | |
| 2-23 | Policy commitments | 3 and 4 | Annual Report of the Board of Directors | | | |
| | | 7 | Introducing our 54th Annual Report – "Precautionary Principle" | | | |
| | | 75 to 89 | Responsible Organisation – Shared Value | | | |
| | | 90 to 99 | Community sustainability – outreach | | | |
| | | 211 and 212 | Policies, procedures, and limits | | | |

| GRI Standard/Disclosure | | Location | | Omission | | |
|---|---|---|---|---|---|---|
| | | Page No. | Report commentary title | Requirement(s) Omitted | Reason | Explanation |
| | | 212 to 228 | Risk management tools | | | |
| 2-24 | Embedding policy commitments | 75 to 89 | Responsible Organisation – Shared Value | | | |
| | | 90 to 99 | Community sustainability – outreach | | | |
| | | 211 and 212 | Policies, procedures, and limits | | | |
| | | 212 to 228 | Risk management tools | | | |
| 2-25 | Processes to remediate negative impacts | 42 | Management Approach | | | |
| | | 167 | Whistleblowing, Anti-Bribery and Anti-Corruption & Group Conduct Risk Management Policy Framework | | | |
| | | 206 | Risk Governance and Management – Streamlining customer complaint handling | | | |
| 2-26 | Mechanisms for seeking advice and raising concerns | 167 | Whistleblowing | | | |
| | | 388 | Annex 1.1: 3 (1) (i) (d) Compliance with Banking Act Direction – Communication with all stakeholders | | | |
| 2-27 | Compliance with laws and regulations | 3 and 4 | Annual Report of the Board of Directors | | | |
| 2-28 | Membership associations | 99 | Memberships: Nexuses in Synergy | | | |
| 2-29 | Approach to stakeholder engagement | 36 to 39 | Connecting with Stakeholders | | | |
| 2-30 | Collective bargaining agreements | 74 | Collective Bargaining: The Dialogues | | | |
| **Material topics** | | | | | | |
| GRI 3: Material Topics 2021 | | | | | | |
| 3-1 | Process to determine material topics | 40 to 42 | Material Matters | | | |
| 3-2 | List of material topics | 43 to 45 | Material Topics, Risks, Opportunities, How we manage and GRI Disclosures | | | |
| 3-3 | Management of material topics | 43 to 45 | Material Topics, Risks, Opportunities, How we manage and GRI Disclosures | | | |
| **Economic performance** | | | | | | |
| GRI 201: Economic Performance 2016 | | | | | | |
| 201-1 | Direct economic value generated and distributed | 430 | Annex 4: Our Sustainability Footprint | | | |
| 201-2 | Financial implications and other risks and opportunities due to climate change | 77 | Climate Position Statement of Commercial Bank of Ceylon PLC | | | |
| 201-3 | Defined benefit plan obligations and other retirement plans | 329 and 330 | Note 48.3 to the Financial Statements-Provision for unfunded pension scheme | | | |
| | | 331 to 335 | Note 48.5 to the Financial Statements-Employee retirement benefit | | | |
| 201-4 | Financial assistance received from government | | The Bank did not receive financial assistance from the Government during the year under review | | | |
| **Indirect economic impacts** | | | | | | |
| GRI 203: Indirect Economic Impacts 2016 | | | | | | |
| 203-1 | Infrastructure investments and services supported | 90 to 99 | Community sustainability – outreach | | | |
| 203-2 | Significant indirect economic impacts | 66 to 69 | Customer Centricity: Uplifting the Small and Medium-Trilingual Presence: Tripartite Inclusivity | | | |

| GRI Standard/Disclosure | Location | | Omission | | |
|---|---|---|---|---|---|
| | Page No. | Report commentary title | Requirement(s) Omitted | Reason | Explanation |
| **Anti-corruption** | | | | | |
| GRI 205: Anti-corruption 2016 | | | | | |
| 205-1 Operations assessed for risks related to corruption | 167 | Anti-Bribery and Anti-Corruption | | | |
| | 226 | Bribery and corruption-related risks | | | |
| 205-2 Communication and training about anti-corruption policies and procedures | 64 and 65 | Anti-bribery and Anti-corruption: Perfect Altitudes | | | |
| | 167 | Anti-Bribery and Anti-Corruption | | | |
| 205-3 Confirmed incidents of corruption and actions taken | | The Bank did not come across incidents of corruption during the year 2022 | | | |
| **Anti-competitive behaviour** | | | | | |
| GRI 206: Anti-competitive Behaviour 2016 | | | | | |
| 206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices | 346 and 347 | There were no legal proceedings relating to anti-competitive behaviour, anti-trust, and monopoly practices during the year 2022. Note 59 to the Financial Statements – Litigation against the Bank | | | |
| **Tax** | | | | | |
| GRI 207: Tax 2019 | | | | | |
| 207-1 Approach to tax | 270 and 271 | Note 9 to the Financial Statements – Significant Accounting Policies – Tax expense | | | |
| 207-2 Tax governance, control, and risk management | 270 and 271 | Note 9 to the Financial Statements – Significant Accounting Policies – Tax expense | | | |
| 207-3 Stakeholder engagement and management of concerns related to tax | 39 | Table 03 – Mode and Frequency of Stakeholder Engagement: Regulators and policy makers | | | |
| 207-4 Country-by-country reporting | 270 and 271 | Note 9 to the Financial Statements – Significant Accounting Policies – Tax expense | | | |
| **Energy** | | | | | |
| GRI 302: Energy 2016 | | | | | |
| 302-1 Energy consumption within the organisation | 430 | Annex 4: Our Sustainability Footprint | | | |
| 302-2 Energy consumption outside of the organisation | – | | 302-2 | Not applicable | Due to the nature of the operations of the Bank |
| 302-3 Energy intensity | – | | 302-3 | Not applicable | |
| 302-4 Reduction of energy consumption | 430 | Annex 4: Our Sustainability Footprint | | | |
| 302-5 Reductions in energy requirements of products and services | – | | 302-5 | Not applicable | Due to the nature of the operations of the Bank |

| GRI Standard/Disclosure | Location | | Omission | | |
|---|---|---|---|---|---|
| | Page No. | Report commentary title | Requirement(s) Omitted | Reason | Explanation |
| **Emissions** | | | | | |
| GRI 305: Emissions 2016 | | | | | |
| 305-1 Direct (Scope 1) GHG emissions | 430 | Annex 4: Our Sustainability Footprint | | | |
| 305-2 Energy indirect (Scope 2) GHG emissions | 430 | Annex 4: Our Sustainability Footprint | | | |
| 305-3 Other indirect (Scope 3) GHG emissions | – | | 305-3 | Not applicable | Due to the nature of the operations of the Bank |
| 305-4 GHG emissions intensity | – | | 305-4 | Not applicable | |
| 305-5 Reduction of GHG emissions | – | | 305-5 | Not applicable | |
| 305-6 Emissions of ozone-depleting substances (ODS) | – | | 305-6 | Not applicable | |
| 305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | – | | 305-7 | Not applicable | |
| **Employment** | | | | | |
| GRI 401: Employment 2016 | | | | | |
| 401-1 New employee hires and employee turnover | 430 | Annex 4: Our Sustainability Footprint | | | |
| 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees | 267 to 269 | Note 7.8 to the Financial Statements: Employee benefits | | | |
| 401-3 Parental leave | 431 | Annex 4: Our Sustainability Footprint | | | |
| **Occupational health and safety** | | | | | |
| GRI 403: Occupational Health and Safety 2018 | | | | | |
| 403-1 Occupational health and safety management system | 79 | Peaking in Tough Times: Optimised operations | | | |
| 403-2 Hazard identification, risk assessment, and incident investigation | 74 | A Transformed Working Environment: Metamorphosis of enterprise | | | |
| 403-3 Occupational health services | – | | 403-3 | Not applicable | Due to the nature of the operations of the Bank |
| 403-4 Worker participation, consultation, and communication on occupational health and safety | – | | 403-4 | Not applicable | |
| 403-5 Worker training on occupational health and safety | – | | 403-5 | Not applicable | |
| 403-6 Promotion of worker health | 74 | A Transformed Working Environment: Metamorphosis of enterprise | | | |
| 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | – | | 403-7 | Not applicable | Due to the nature of the operations of the Bank |
| 403-8 Workers covered by an occupational health and safety management system | – | | 403-8 | Not applicable | |
| 403-9 Work-related injuries | | There has been no injuries during the year | | | |
| 403-10 Work-related ill health | – | | 403-10 | Not applicable | Due to the nature of the operations of the Bank |

| GRI Standard/Disclosure | Location | | Omission | | |
|---|---|---|---|---|---|
| | Page No. | Report commentary title | Requirement(s) Omitted | Reason | Explanation |
| **Training and education** | | | | | |
| GRI 404: Training and Education 2016 | | | | | |
| 404-1 Average hours of training per year per employee | 431 | Annex 4: Our Sustainability Footprint | | | |
| 404-2 Programs for upgrading employee skills and transition assistance programs | 74 | Training and Development of Staff: Stepping Up | | | |
| | 86 | The Banking Vocation: Impassioned Caretakers | | | |
| | 88 | Staff Training: Learning Curves | | | |
| 404-3 Percentage of employees receiving regular performance and career development reviews | 431 | Annex 4: Our Sustainability Footprint | | | |
| **Diversity and equal opportunity** | | | | | |
| GRI 405: Diversity and Equal Opportunity 2016 | | | | | |
| 405-1 Diversity of governance bodies and employees | 86 and 87 | Brilliant Colours of Diversity: Financial Strokes | | | |
| | 160 | Figure – 22 Composition of Board (as at December 31, 2022) | | | |
| | 431 | Annex 4: Our Sustainability Footprint | | | |
| 405-2 Ratio of basic salary and remuneration of women to men | 431 | Annex 4: Our Sustainability Footprint | | | |
| **Customer privacy** | | | | | |
| GRI 418: Customer Privacy 2016 | | | | | |
| 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | | The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss during the year under review. | | | |

| Non GRI disclosures | Location | |
|---|---|---|
| | Page No. | Report commentary title |
| Instability and lack of policy consistency | 48 to 53 | Operating Context and Outlook |
| Economic slowdown | 48 to 53 | Operating Context and Outlook |
| Directed lending | 69 | Uplifting the Small and Medium Enterprises (SMEs): Lending Matters |
| Higher regulatory capital | 103 | Financial Review- Capital |
| Envisaged upturn in private sector credit and improvement in asset quality | 48 to 53 | Operating Context and Outlook |
| Changing customer expectations | 68 to 71 | Customer centricity |

# Annex 4: Our Sustainability Footprint

## GRI Disclosures – 5 Year Summary

| Disclosure | | Unit of Measure | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|---|---|
| 201–1 | Direct economic value: | | | | | | |
| | – Generated | Rs. Mn. | 275,444 | 160,886 | 149,711 | 148,706 | 138,049 |
| | – Distributed to | | 183,028 | 118,366 | 116,450 | 124,544 | 117,032 |
| | – Depositors | | 136,583 | 65,832 | 72,759 | 80,571 | 72,524 |
| | – Employees | | 19,113 | 16,321 | 14,564 | 14,083 | 13,071 |
| | – Business partners | | 12,782 | 12,762 | 9,636 | 10,426 | 10,497 |
| | – Government | | 8,844 | 14,361 | 11,808 | 12,691 | 14,286 |
| | – Shareholders | | 5,579 | 8,957 | 7,586 | 6,679 | 6,571 |
| | – Community | | 127 | 133 | 97 | 94 | 83 |
| | – Retained | | 92,416 | 42,520 | 33,261 | 24,162 | 21,017 |
| 302–1 | Energy consumption within the organisation | Gigajoules | 38,416 | 42,906 | 45,045 | 50,296 | 49,958 |
| 302–4 | Reduction of energy consumption | Gigajoules | 4,490 | 2,139 | 5,251 | (338) | 4,862 |
| 305–1 | Direct (Scope 1) GHG emissions | $CO_2$ Tonnes. | Pending | 1,203 | 1,079 | 1,282 | 1,369 |
| 305–2 | Energy indirect (Scope 2) GHG emissions | $CO_2$ Tonnes. | Pending | 7,144 | 8,413 | 10,957 | 10,838 |

| Disclosure | | 2022 Nos. | 2022 % | 2021 Nos. | 2021 % | 2020 Nos. | 2020 % | 2019 Nos. | 2019 % | 2018 Nos. | 2018 % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 401–1 | New employee hires | Nos. | % | Nos. | % | Nos. | % | Nos. | % | Nos. | % |
| | Female | 107 | 2.09 | 82 | 1.62 | 41 | 0.81 | 57 | 1.13 | 70 | 1.41 |
| | – 18–30 Years | 104 | 2.03 | 78 | 1.54 | 41 | 0.81 | 52 | 1.03 | 67 | 1.34 |
| | – 31–50 Years | 3 | 0.06 | 4 | 0.08 | – | – | 5 | 0.10 | 3 | 0.06 |
| | – Above 50 Years | – | – | – | – | – | – | – | – | – | – |
| | Male | 262 | 5.11 | 144 | 2.84 | 117 | 2.31 | 207 | 4.12 | 242 | 4.86 |
| | – 18–30 Years | 228 | 4.45 | 125 | 2.46 | 106 | 2.09 | 197 | 3.92 | 233 | 4.68 |
| | – 31–50 Years | 28 | 0.55 | 16 | 0.32 | 11 | 0.22 | 9 | 0.18 | 8 | 0.16 |
| | – Above 50 Years | 6 | 0.12 | 3 | 0.06 | 0 | – | 1 | 0.02 | 1 | 0.02 |
| | Total | 369 | 7.20 | 226 | 4.46 | 158 | 3.12 | 264 | 5.25 | 312 | 6.26 |
| | Attrition | | | | | | | | | | |
| | Female | 92 | 1.80 | 54 | 1.07 | 52 | 1.03 | 73 | 1.45 | 72 | 1.44 |
| | – 18–30 Years | 39 | 0.76 | 21 | 0.41 | 12 | 0.24 | 31 | 0.61 | 10 | 0.20 |
| | – 31–50 Years | 34 | 0.66 | 9 | 0.18 | 9 | 0.18 | 18 | 0.36 | 41 | 0.82 |
| | – Above 50 Years | 19 | 0.37 | 24 | 0.48 | 31 | 0.61 | 24 | 0.48 | 21 | 0.42 |
| | Male | 220 | 4.29 | 115 | 2.27 | 111 | 2.19 | 154 | 3.05 | 191 | 3.82 |
| | – 18–30 Years | 90 | 1.76 | 52 | 1.03 | 51 | 1.01 | 91 | 1.80 | 107 | 2.14 |
| | – 31–50 Years | 98 | 1.91 | 37 | 0.73 | 32 | 0.63 | 43 | 0.85 | 51 | 1.02 |
| | – Above 50 Years | 32 | 0.62 | 26 | 0.51 | 28 | 0.55 | 20 | 0.40 | 33 | 0.66 |
| | Total | 312 | 6.09 | 169 | 3.34 | 163 | 3.22 | 227 | 4.50 | 263 | 5.26 |

| Disclosure | | Unit of Measure | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|---|---|
| 401–3 | Parental leave | | | | | | |
| | – Entitled to leave | Nos. | 1,133 | 1,196 | 1,185 | 1,196 | 1,189 |
| | – Availed for leave | Nos. | 49 | 50 | 69 | 84 | 58 |
| | – Due to return | Nos. | 54 | 59 | 73 | 64 | 48 |
| | – Return to work | Nos. | 54 | 59 | 73 | 64 | 48 |
| | – Still employed | Nos. | 56 | 70 | 61 | 45 | 51 |
| | – Return ratio | % | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| | – Retained ratio | % | 94.92 | 95.89 | 95.31 | 93.75 | 96.23 |
| 404–1 | Average training hours | Hours | | | | | |
| | Female | | 26 | 2 | 2 | 19 | 20 |
| | – Corporate Management | | 18 | 3 | 1 | 32 | 29 |
| | – Executive officers | | 15 | 5 | 2 | 23 | 22 |
| | – Junior executive assistants and allied grades | | 28 | 3 | 1 | 10 | 10 |
| | – Banking and graduate trainees | | 50 | 10 | 8 | 64 | 86 |
| | Male | | 29 | 3 | 7 | 27 | 26 |
| | – Corporate Management | | 17 | 7 | 6 | 34 | 35 |
| | – Executive officers | | 19 | 5 | 6 | 28 | 25 |
| | – Junior executive assistants and allied grades | | 36 | 3 | 5 | 16 | 16 |
| | – Banking and graduate trainees | | 50 | 8 | 28 | 83 | 79 |
| 404–3 | Percentage of employees receiving performance and career development reviews | % | | | | | |
| | – Female | | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| | – Male | | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| 405–1 | Diversity and equal opportunity | % | | | | | |
| | Gender | | | | | | |
| | – Female | | 23.76 | 23.68 | 23.43 | 23.63 | 24.08 |
| | – Male | | 76.24 | 76.32 | 76.57 | 76.37 | 75.92 |
| | Age group | | | | | | |
| | – 18-30 Years | | 32.65 | 33.12 | 34.86 | 37.34 | 39.94 |
| | – 31-50 Years | | 57.82 | 58.44 | 57.37 | 55.15 | 52.93 |
| | – Above 50 Years | | 9.53 | 8.44 | 7.77 | 7.51 | 7.13 |
| 405–2 | Remuneration ratio women to men | Male:Female | | | | | |
| | – Corporate Management | | 1:0.75 | 1:0.70 | 1:0.75 | 1:0.97 | 1:0.75 |
| | – Executive officers | | 1:1.04 | 1:1.06 | 1:1.05 | 1:1.09 | 1:1.11 |
| | – Junior executive assistants and allied grades | | 1:1.08 | 1:1.08 | 1:1.10 | 1:1.10 | 1:1.09 |
| | – Banking and graduate trainees | | 1:0.99 | 1:0.98 | 1:1.00 | 1:1.01 | 1:1.02 |
| | – Office assistants and other | | 1:1.19 | 1:0.84 | 1:0.79 | 1:0.79 | 1:0.82 |
| 418–1 | Substantiated complaints | The Bank did not come across any complaint that had resulted in a reputational damage or significant financial loss. | | | | | |

# Annex 5: Disclosures relating to Sustainability Accounting Standard for Commercial Banks

<table>
<tr><th>Topic</th><th>Accounting Metric</th><th>Code</th><th>Disclosure</th><th>Page No.</th></tr>
<tr><td>Data Security</td><td>Description of approach to identifying and addressing data security risks</td><td>FN-CB-230a.2</td><td>Item G of Annex 1.2: Compliance with Code of Best Practice on Corporate Governance</td><td>404</td></tr>
<tr><td rowspan="3">Financial Inclusion and Capacity Building</td><td>(1) Number and (2) amount of loans outstanding qualified to programmes designed to promote small business and community development</td><td>FN-CB-240a.1</td><td>Composition of Loans Granted by Commercial Bank to the SME Sector</td><td>67</td></tr>
<tr><td rowspan="2">Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers</td><td rowspan="2">FN-CB-240a.4</td><td>Uplifting the Small and Medium Enterprises (SMEs): Lending Matters</td><td>67</td></tr>
<tr><td>Responsible Organisation – Shared Value</td><td>75</td></tr>
<tr><td rowspan="2">Incorporation of Environmental, Social, and Governance Factors in Credit Analysis</td><td>Commercial and industrial credit exposure, by industry</td><td rowspan="2">FN-CB-410a.1</td><td>Note 33.1.(c) to the Financial Statements on Loan portfolio by industry</td><td>298</td></tr>
<tr><td>Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis</td><td>Management of social and environmental risk</td><td>256</td></tr>
<tr><td rowspan="2">Business Ethics</td><td>Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading anti-trust, anti-competitive behaviour, market manipulation, malpractice, or other related financial industry laws or regulations</td><td>FN-AC-510a.1</td><td>There were no legal proceedings or monetary losses relating to such incidents.<br>Details on litigation against the Bank is disclosed on Note 59 to the Financial Statements</td><td>346</td></tr>
<tr><td>Description of whistleblower policies and procedures</td><td>FN-AC-510a.2</td><td>Whistleblowing</td><td>167</td></tr>
</table>

# Annex 6: Independent Assurance Reports

## Annex 6.1: Independent Assurance Report to Commercial Bank of Ceylon PLC on Sustainability Reporting Criteria presented in the Integrated Annual Report 2022

EY
Building a better working world

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

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

### Independent Assurance Report to the Board of Directors of Commercial Bank of Ceylon PLC

#### Introduction and scope of the engagement

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

- Reasonable assurance on the information on financial performance as specified on pages 270 and 271, 329 to 335, and 430 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 SLSAE-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 February 20, 2023. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka, EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

#### Key Assurance Procedures

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

- Agreed the information on financial performance as disclosed on pages 270 and 271, 329 to 335, and 430 of the Report to audited financial statements
- Validated the information presented and checked the calculations performed by the organisation 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 organisation's personnel to understand the process for collection, analysis, aggregation and presentation of data. Interviews included selected key management personnel and relevant staff
- Read the content presented in the Report for consistency with our overall knowledge obtained during the course of our assurance engagement and requested changes wherever required.
- Provided guidance, recommendations and feedback on the improvement of the sustainability reporting indicators to improve the presentation standard.

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

## Limitations and considerations

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

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

## Conclusion

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

- The information on financial performance as specified on pages 270 and 271, 329 to 335, and 430 of the Report are properly derived from the audited financial statements for the year ended December 31, 2022.
- Nothing has come to our attention that causes us to believe that the information presented in the Report are not fairly presented, in all material respects, in accordance with the relevant criteria.

Ernst & Young

Colombo

February 24, 2023

# Annex 6.2: Independent Assurance Report to Commercial Bank of Ceylon PLC on Integrated Reporting presented in the Annual Report 2022

Building a better working world

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

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

## Independent Assurance Report to the Board of Directors of Commercial Bank of Ceylon PLC on the Integrated Annual Report – 2022

### Introduction and scope of the engagement

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

- Reasonable assurance on the information on financial capital management as specified on pages 56 and 100 to 111 of the Report.
- Limited assurance on other information on management of the capitals (other than financial capital), stakeholder engagement, business model, strategy, organisational overview & external environment outlook presented in the Report prepared in accordance with the Guiding Principles and Content Elements given in the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

### Basis of our work and level of assurance

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

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

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

### Management of the Bank's responsibility for the Report

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

### Ernst & Young's responsibilities

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

This report is made solely to the Bank in accordance with our engagement letter dated February 20, 2023. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by CA Sri Lanka, EY also applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

### Key Assurance Procedures

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

Key assurance procedures included:

- Performed a comparison of the content of the Integrated Annual Report against the Guiding Principles and Content Elements given in the Integrated Reporting Framework (<IR> Framework).

- Checked whether the information contained in the Integrated Annual Report – Financial Capital element information has been properly derived from the audited financial statements.
- Conducted interviews with the selected key management personnel and relevant staff and obtained an understanding of the internal controls, governance structure and reporting process relevant to the Integrated Report.
- Obtained an understanding of the relevant internal policies and procedures developed, including those relevant to determining what matters most to the stakeholders, how the organisation creates value, the external environment, strategy, approaches to putting members first, governance and reporting.
- Obtained an understanding of the description of the organisation's strategy and how the organisation creates value, what matters most to the stakeholders and enquiring the management as to whether the description in the Integrated Report accurately reflects their understanding.
- Checked the Board of Directors meeting minutes during the financial year to ensure consistency with the content of the Integrated Report.
- Tested the relevant supporting evidence related to qualitative & quantitative disclosures within the Integrated Report against identified material aspects.
- Read the Integrated Report in its entirety for consistency with our overall knowledge obtained during the assurance engagement.

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

## Limitations and considerations

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

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

## Conclusion

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

- The information on financial performance as specified on pages 56 and 100 to 111 of the Report are properly derived from the audited financial statements for the year ended December 31, 2022.
- Nothing has come to our attention that causes us to believe that other information on stakeholder engagement, business model, organisation overview & external environment and outlook presented in the Report are not fairly presented, in all material respects, in accordance with the Integrated Annual Reporting practices and policies which are derived from the IFRS Foundation/International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework).

Ernst + Young

Colombo

February 24, 2023

# Annex 6.3: Independent Assurance Statement on Non-Financial Reporting – DNV

DNV

## Scope and Approach

DNV as represented by DNV Business Assurance Lanka (Private) Limited ('DNV') was engaged by management of Commercial Bank of Ceylon PLC ('Commercial Bank' or 'the Bank', Company Registration Number PQ116) to undertake an independent assurance of the qualitative and quantitative non-financial information (sustainability performance) presented in the Bank's Annual Report 2022 ('the Report') in its printed format.

This Report is prepared based on the Guiding Principles and Content Elements of the International <IR> Framework (January 2021, the '<IR> Framework') of the International Integrated Reporting Council ('IIRC') and the Global Reporting Initiative's (GRI's) Sustainability Reporting Standards ('GRI Standards 2021') to bring out the various Content Elements of the <IR> Framework and performance trends related to identified material topics. The intended user of this Assurance Statement is the management of the Bank.

We performed a Type 2 Moderate Level of assurance using AccountAbility's AA1000 Assurance Standard v3 (August 2020, 'AA1000AS v3') and DNV's assurance methodology VeriSustain™[1], which is based on our professional experience, international assurance best practices including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised* and the GRI's Principles for Defining Report Content and Quality. Our assurance engagement was planned and carried out during February-March 2023 for the reported performance indicators during the reporting period January 01, 2022 to December 31, 2022.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion, and our process did not involve engagement with external stakeholders. In doing so, we evaluated the qualitative and quantitative disclosures presented in the Report using the Guiding Principles of the <IR> Framework, together with the Bank's procedures and protocols for how the non-financial performance was measured, recorded and reported.

The reporting topic boundary of sustainability/non-financial performance is as set out in the Report in the section 'Basis of Preparation' and is based on internal and external materiality assessment covering Commercial Bank's banking and associated operations in Sri Lanka. The Report excludes performance data and information related to the activities of Commercial Bank's seven subsidiaries – Commercial Development Co. PLC, CBC Tech Solutions Ltd., CBC Finance Ltd., Commex Sri Lanka S.R.L Italy, Commercial Bank of Maldives (Private) Limited, CBC Myanmar Microfinance Company Limited and Commercial Insurance Brokers (Pvt.) Ltd., and the operations of its associate, Equity Investments Lanka Ltd. as the results of their operations are not significant (<1 % revenue) compared to the overall results of the Bank.

## Responsibilities of the Management of Commercial Bank and of the Assurance Provider

The Management team of the Bank have the sole accountability for the preparation of the Report and are responsible for the information disclosed in the Report as well as the processes for collecting, analysing and reporting the information presented in the Report. In performing the assurance work, our responsibility is to the management of the Bank; however, this statement represents our independent opinion and is intended to inform the outcome of our assurance to the stakeholders of the Bank.

DNV 's assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith and free from any misstatements. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Our scope of work focussed on verification of non-financial disclosures only and excluded verification of the reported data on financial performance of the Bank, as financial disclosures and data has been subject to a separate independent statutory audit process.

## Basis of our Opinion

We planned and performed our work to obtain the evidence considered necessary to provide a basis for our assurance opinion, and as part of the assurance engagement, a multi-disciplinary team of sustainability and assurance specialists conducted remote assessments and interactions with key internal stakeholders at the Bank's Head Office and operational branches of the Bank in Sri Lanka based on DNV's sampling plan. We adopted a risk-based approach, that is, we concentrated our remote verification efforts on the issues of high material relevance to the Bank and its key stakeholders. We undertook the following activities:

- Reviewed the Bank's approach to addressing the Guiding Principles and Content Elements of the <IR> Framework, including stakeholder engagement and its materiality determination process.
- Verified the value creation disclosures related to the capitals identified by the Bank (capitals of the <IR> Framework and Digital Capital) as well as claims made in the Report;
- Assessed the robustness of the data management system, data accuracy, information flow and controls for the reported disclosures.
- Examined and reviewed selected evidence including documents, data and other information made available by the Bank related to non-financial disclosures presented within the Report;

[1] *The VeriSustain protocol is available on request from www.dnv.com .The protocol is based on our professional experience, international assurance best practice including International Standard on Assurance Engagements 3000 (ISAE 3000) Revised (Assurance Engagements other than Audits or Reviews of Historical Financial Information) and the Global Reporting Initiative's (GRI's) Principles for Defining Report Content and Quality.*

*Project No.: PRJN-508793-2023-AST-LKA*

DNV

- Conducted interviews with top and senior management team of the Bank and other representatives, including data owners and decision-makers from different divisions and functions of the Bank to validate the non-financial disclosures. We were free to choose interviewees and interviewed those with overall responsibility to deliver the Bank's sustainability objectives.
- Review of processes and systems for preparing site level sustainability/non-financial data and implementation of sustainability strategy through onsite and remote assessments and interviews with management teams. We were free to choose the senior management team to interaction
- Performed sample-based reviews of the mechanisms for implementing the Bank's sustainability related policies, as described in the Report;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report based on the GRI Standards.

During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement.

## Opinion and Observations

On the basis of the assurance work undertaken, nothing has come to our attention that causes us to believe that the Report does not properly describe Commercial Bank of Ceylon PLC's adherence to the criteria of reporting (Guiding Principles and Content Elements) related to the <IR> Framework, representation of the material topics, business model, disclosures on value creation through six(6) identified capitals, related strategies and management approach, and chosen topic specific GRI Standards related to identified material topics. Without affecting our assurance opinion, we also provide the following observations.

### AA1000 Accountability Principles Standard (2018)

#### Inclusivity

*People should have a say in the decisions that impact them.*

We reviewed the application of the principle of Inclusivity i.e. the process of stakeholder identification and engagement including effectiveness of the review process in identifying, engaging and responding to key sustainability concerns of significant stakeholders such as employees, customers, investors, regulators and society. The Bank has ongoing processes for stakeholder engagement to identify critical and emerging issues based on the changes in external environment through its documented stakeholder engagement process, however the stakeholder engagement process could be further strengthened to collect inputs, ideas and suggestions through structured customer feedback mechanisms on a proactive basis.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Inclusivity.***

#### Materiality

*Decision makers should identify and be clear about the sustainability topics that matter*

The Report brings out the application of the Materiality principle of the <IR> Framework to arrive at significant material topics for the organisation considering its nature of business. As part of assurance, we reviewed the process of materiality assessment of the process of revalidation of materiality based on inputs from its key stakeholders.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Materiality.***

#### Responsiveness

*Organisations should act transparently on material sustainability topics and their related impacts*

The key stakeholder concerns and the Bank's responses to these concerns are fairly responded to within the Report through disclosures such as Bank's business model, policies, management systems, governance mechanisms, disclosures on management approach. However, the bank can focus more disclosing the Bank's short, medium, and long-term goals with respect to identified material topics in future reporting periods.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Responsiveness.***

#### Impact

*Organisations should monitor, measure, and be accountable for how their actions affect their broader ecosystems*

The Report brings out the Bank's metrics such as customer centricity, prudent growth, operational excellence, innovation etc. and management processes established for monitoring, measurement, and evaluation of key non-financial impacts on its internal and external stakeholders. The Report also describes both positive and negative impacts during the reporting period and related approaches to mitigate risks if any, to constantly create and change value for the Bank and its key stakeholders.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Impact.***

### Specific Evaluation of the Information on Sustainability Performance

We consider the methodology and process for gathering information developed by Commercial Bank for its non-financial/ sustainability performance reporting to be appropriate, and the qualitative and

DNV

quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible were able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities and goals achieved for the reporting period.

### Reliability

*The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems*

The Report brings out Commercial Bank's non-financial performance for identified material matters through chosen GRI Topic Specific Standards. The robustness of the data management and aggregation systems was evaluated and verified through our remote assessments at the Head Office and were found to be fairly accurate and reliable. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors and these errors have been corrected.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Reliability.***

### Additional principles as per DNV VeriSustain

### Completeness

*How much of all the information that has been identified as material to the organisation and its stakeholders is reported*

The Report has brought out the Content Elements, Guiding Principles and value creation through its six (6) identified capitals, its business model, strategies and management approach disclosures in line with the <IR> Framework and its key requirements as well as non-financial performance related to material topics through chosen GRI Standards of entities within the chosen reporting boundary considering the Bank's sphere of control and influence.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Completeness.***

### Neutrality

*The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone*

The Report brings out the Bank's challenges, concerns related to key stakeholders such as employees, customers, investors, regulators and society and responses to challenges during the reporting period in a neutral tone in terms of content and presentation.

***Nothing has come to our attention to suggest that the Report does not meet the requirements related to the Principle of Neutrality.***

### Statement of Competence and Independence

DNV applies its own management standards and compliance policies for quality control, in accordance with ISO IEC 17021:2015 - Conformity Assessment Requirements for bodies providing audit and certification of management systems, 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.

We have complied with the DNV Code of Conduct2 during the assurance engagement and maintain independence where required by relevant ethical requirements including the AA1000AS v3 Code of Practice. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement and Management Report. DNV maintains complete impartiality toward stakeholders interviewed during the assurance process. DNV did not provide any services to Commercial Bank and its subsidiaries in the scope of assurance during 2022-23 that could compromise the independence or impartiality of our work.

**For and on behalf of DNV AS**

Colombo, Sri Lanka

March 01, 2023

Tapan

Digitally signed by Panda, Tapan Kumar
Date: 2023.03.01 14:47:20 +05'30'

Tapan Kumar Panda

Lead Verifier,

DNV Business Assurance India Private Limited, India.

Tikare, Prakash

Digitally signed by Tikare, Prakash
Date: 2023.03.01 14:53:44 +05'30'

Prakash Tikare

Country Manager- India & Sri Lanka

DNV Business Assurance India Private Limited, India.

Digitally signed by Lankalapalli, Bhargav
Date: 2023.03.01 14:49:36 +05'30'

Bhargav Lankalapalli

Technical Reviewer

DNV Business Assurance India Private Limited, India.

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Licensed Report
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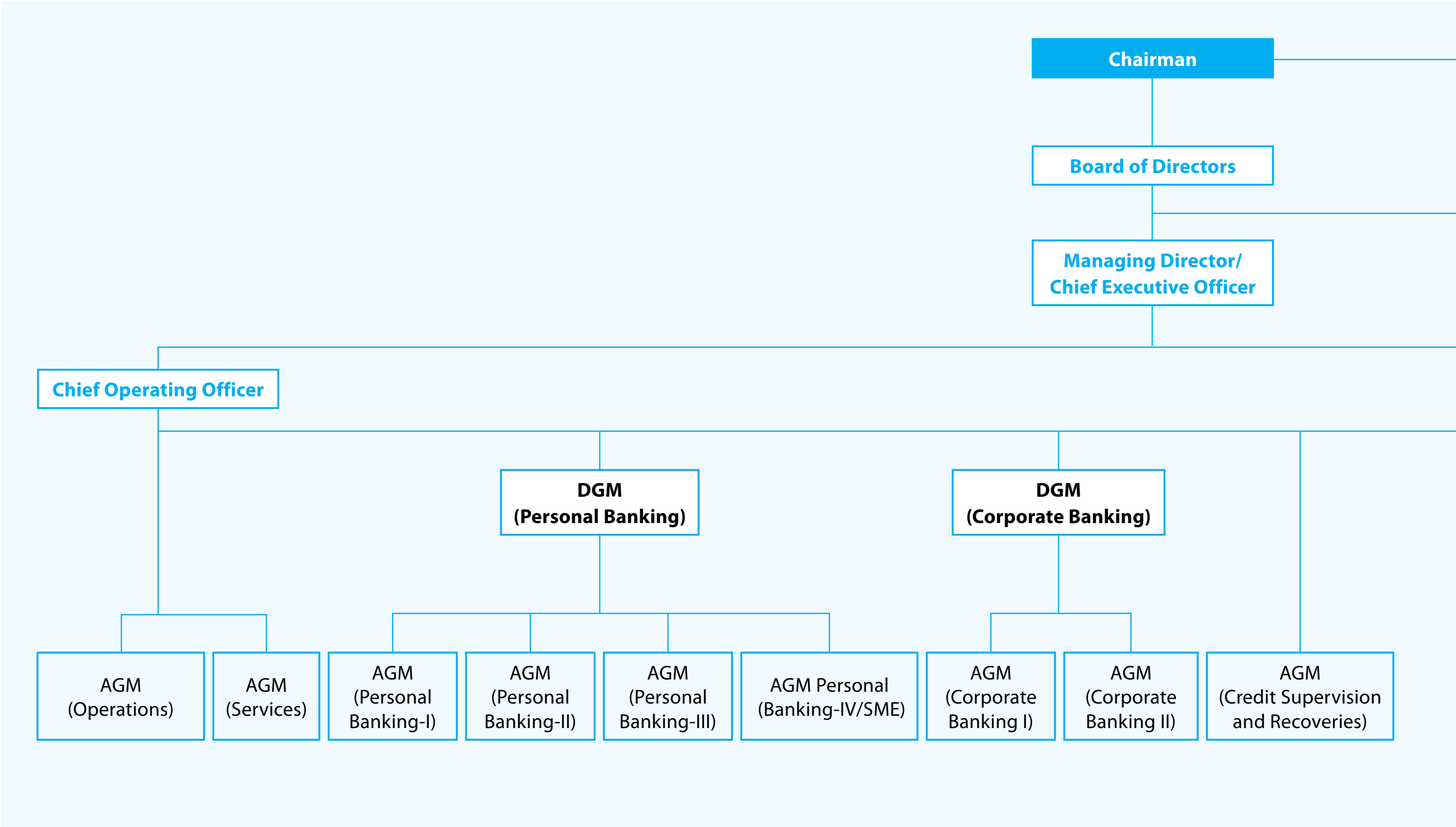
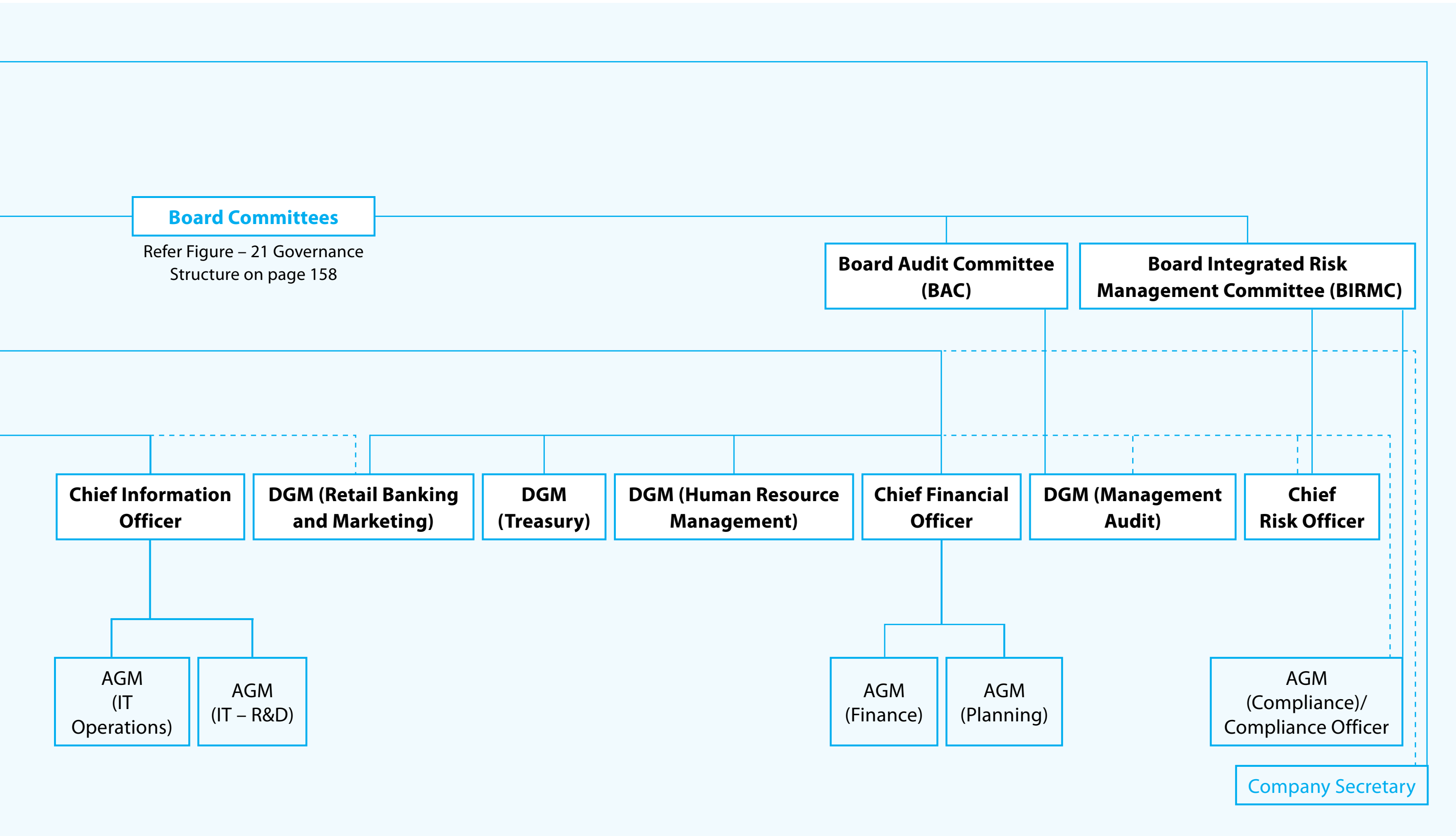
DNV Business Assurance Lanka (Private) Limited is part of DNV – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnv.com

# Annex 7: The Bank's Organisation Structure




DGM – Deputy General Manager, AGM – Assistant General Manager

All Chief Executive Officers of subsidiaries report to the Managing Director/Chief Executive Officer


Board Committees
Refer Figure – 21 Governance Structure on page 158
Board Audit Committee (BAC)
Board Integrated Risk Management Committee (BIRMC)
Chief Information Officer
DGM (Retail Banking and Marketing)
DGM (Treasury)
DGM (Human Resource Management)
Chief Financial Officer
DGM (Management Audit)
Chief Risk Officer
AGM (IT Operations)
AGM (IT – R&D)
AGM (Finance)
AGM (Planning)
AGM (Compliance)/ Compliance Officer
Company Secretary

# Annex 8: Financial Statements (US Dollars)

## Income Statement

| | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|
| *For the year ended December 31,* | **2022 USD '000** | 2021 USD '000 | Change % | **2022 USD '000** | 2021 USD '000 | Change % |
| **Gross income** | **763,997** | 445,981 | 71.31 | **750,527** | 438,381 | 71.20 |
| Interest income | **605,976** | 361,902 | 67.44 | **594,895** | 355,431 | 67.37 |
| Less: Interest expense | **375,280** | 180,931 | 107.42 | **372,160** | 179,380 | 107.47 |
| **Net interest income** | **230,696** | 180,971 | 27.48 | **222,735** | 176,051 | 26.52 |
| Fee and commission income | **71,367** | 43,371 | 64.55 | **69,384** | 41,990 | 65.24 |
| Less: Fee and commission expense | **16,410** | 10,014 | 63.87 | **16,274** | 9,970 | 63.23 |
| **Net fee and commission income** | **54,957** | 33,357 | 64.75 | **53,110** | 32,020 | 65.87 |
| Net gains/(losses) from trading | **96,178** | 5,275 | 1,723.28 | **96,178** | 5,275 | 1,723.28 |
| Net gains/(losses) from derecognition of financial assets | **754** | 8,179 | (90.78) | **754** | 8,179 | (90.78) |
| Net other operating income | **(10,278)** | 27,254 | (137.71) | **(10,684)** | 27,506 | (138.84) |
| **Total operating income** | **372,307** | 255,036 | 45.98 | **362,093** | 249,031 | 45.40 |
| Less: Impairment charges and other losses | **195,979** | 68,501 | 186.10 | **194,718** | 67,282 | 189.41 |
| **Net operating income** | **176,328** | 186,535 | (5.47) | **167,375** | 181,749 | (7.91) |
| **Less: Expenses** | | | | | | |
| Personnel expenses | **53,919** | 45,774 | 17.79 | **52,078** | 44,472 | 17.10 |
| Depreciation and amortisation | **9,805** | 8,774 | 11.75 | **9,710** | 8,661 | 12.11 |
| Other operating expenses | **35,138** | 26,263 | 33.79 | **33,406** | 25,591 | 30.54 |
| **Total operating expenses** | **98,862** | 80,811 | 22.34 | **95,194** | 78,724 | 20.92 |
| **Operating profit before taxes on financial services** | **77,466** | 105,724 | (26.73) | **72,181** | 103,025 | (29.94) |
| Less: Taxes on financial services | **10,685** | 15,927 | (32.91) | **10,605** | 15,829 | (33.00) |
| **Operating profit after taxes on financial services** | **66,781** | 89,797 | (25.63) | **61,576** | 87,196 | (29.38) |
| Share of profit/(loss) of associate, net of tax | **(10)** | 5 | (300.00) | **–** | – | – |
| **Profit before tax** | **66,771** | 89,802 | (25.65) | **61,576** | 87,196 | (29.38) |
| Less: Income tax expense/(reversal) | **288** | 23,616 | (98.78) | **(1,012)** | 22,875 | (104.42) |
| **Profit for the year** | **66,483** | 66,186 | 0.45 | **62,588** | 64,321 | (2.70) |
| **Profit attributable to:** | | | | | | |
| Equity holders of the Bank | **64,882** | 65,565 | (1.04) | **62,588** | 64,321 | (2.70) |
| Non-controlling interest | **1,601** | 621 | 157.81 | **–** | – | – |
| **Profit for the year** | **66,483** | 66,186 | 0.45 | **62,588** | 64,321 | (2.70) |
| **Earnings per share** | | | | | | |
| Basic earnings per ordinary share (USD) | **0.05** | 0.05 | – | **0.05** | 0.05 | – |
| Diluted earnings per ordinary share (USD) | **0.05** | 0.05 | – | **0.05** | 0.05 | – |

## US Dollar Accounts

The Income Statement and the Statement of Financial Position given on pages 442 and 443 are solely for the convenience of stakeholders.

## Statement of Financial Position

| | GROUP | | | BANK | | |
|---|---|---|---|---|---|---|
| *As at December 31,* | **2022 USD '000** | 2021 USD '000 | Change % | **2022 USD '000** | 2021 USD '000 | Change % |
| **Assets** | | | | | | |
| Cash and cash equivalents | 411,742 | 188,925 | 117.94 | 407,067 | 185,499 | 119.44 |
| Balances with Central Banks | 214,161 | 154,707 | 38.43 | 181,181 | 144,136 | 25.70 |
| Placements with banks | 261,806 | 34,056 | 668.75 | 261,307 | 31,567 | 727.79 |
| Securities purchased under resale agreements | 4,134 | 8,176 | (49.44) | 4,134 | 8,176 | (49.44) |
| Derivative financial assets | 22,739 | 8,842 | 157.17 | 22,739 | 8,842 | 157.17 |
| Financial assets recognised through profit or loss – measured at fair value | 67,774 | 63,859 | 6.13 | 67,774 | 63,859 | 6.13 |
| Financial assets at amortised cost – loans and advances to other customers | 3,148,481 | 2,805,406 | 12.23 | 3,080,225 | 2,764,628 | 11.42 |
| Financial assets at amortised cost – debt and other financial instruments | 2,075,341 | 1,050,111 | 97.63 | 1,978,025 | 1,006,588 | 96.51 |
| Financial assets measured at fair value through other comprehensive income | 323,303 | 915,405 | (64.68) | 318,954 | 914,069 | (65.11) |
| Investments in subsidiaries | – | – | – | 15,827 | 15,827 | – |
| Investment in associate | 151 | 165 | (8.48) | 121 | 121 | – |
| Property, plant and equipment and right–of–use assets | 74,786 | 67,424 | 10.92 | 69,279 | 62,876 | 10.18 |
| Investment properties | 219 | 197 | 11.17 | – | – | – |
| Intangible assets | 11,208 | 6,192 | 81.01 | 9,709 | 4,700 | 106.57 |
| Deferred tax assets | 83,725 | 27,346 | 206.17 | 82,565 | 26,684 | 209.42 |
| Other assets | 111,202 | 73,796 | 50.69 | 110,897 | 73,636 | 50.60 |
| **Total assets** | 6,810,772 | 5,404,607 | 26.02 | 6,609,804 | 5,311,208 | 24.45 |
| **Liabilities** | | | | | | |
| Due to banks | 177,033 | 201,093 | (11.96) | 177,466 | 201,028 | (11.72) |
| Derivative financial liabilities | 7,849 | 5,701 | 37.68 | 7,849 | 5,701 | 37.68 |
| Securities sold under repurchase agreements | 266,285 | 412,602 | (35.46) | 266,285 | 413,929 | (35.67) |
| Financial liabilities at amortised cost – due to depositors | 5,388,947 | 4,012,644 | 34.30 | 5,216,238 | 3,932,135 | 32.66 |
| Financial liabilities at amortised cost – other borrowings | 44,006 | 88,793 | (50.44) | 44,006 | 88,793 | (50.44) |
| Current tax liabilities | 67,891 | 25,850 | 162.63 | 66,690 | 25,325 | 163.34 |
| Deferred tax liabilities | 1,191 | 951 | 25.24 | – | – | – |
| Other liabilities | 109,958 | 90,607 | 21.36 | 108,613 | 90,492 | 20.02 |
| Due to subsidiaries | – | – | – | 315 | 133 | 136.84 |
| Subordinated liabilities | 167,305 | 104,369 | 60.30 | 167,305 | 104,369 | 60.30 |
| **Total liabilities** | 6,230,465 | 4,942,610 | 26.06 | 6,054,767 | 4,861,905 | 24.53 |
| **Equity** | | | | | | |
| Stated capital | 158,446 | 148,684 | 6.57 | 158,446 | 148,684 | 6.57 |
| Statutory reserves | 32,915 | 28,857 | 14.06 | 30,934 | 27,805 | 11.25 |
| Retained earnings | 18,502 | 26,950 | (31.35) | 15,237 | 24,600 | (38.06) |
| Other reserves | 359,252 | 251,844 | 42.65 | 350,420 | 248,214 | 41.18 |
| **Total equity attributable to equity holders of the Bank** | 569,115 | 456,335 | 24.71 | 555,037 | 449,303 | 23.53 |
| **Non–controlling interest** | 11,192 | 5,662 | 97.67 | – | – | – |
| **Total equity** | 580,307 | 461,997 | 25.61 | 555,037 | 449,303 | 23.53 |
| **Total liabilities and equity** | 6,810,772 | 5,404,607 | 26.02 | 6,609,804 | 5,311,208 | 24.45 |
| **Contingent liabilities and commitments** | 1,513,710 | 1,867,518 | (18.95) | 1,497,062 | 1,859,400 | (19.49) |
| **Net assets value per ordinary share (USD)** | 0.46 | 0.38 | 21.05 | 0.45 | 0.38 | 18.42 |

*An exchange rate of 1 USD equals 367 LKR for both the years, has been used to facilitate comparison*

# Annex 9: Correspondent Banks and Agent Network

## 01. Canada

**Bank of Montreal (CAD)**
Toronto
BIC: BOFMCAM2
A/C: 31441044203 and 31441044190*

## 02. United States of America

**Bank of America NT and SA (USD)**
San Francisco
BIC: BOFAUS6S
A/C: 6290890098

**Citi Bank (USD)**
New York
BIC: CITIUS33
A/C: 36141446 and 36241316*

**Deutsche Bank Trust Company Americas (USD)**
New York
BIC: BKTRUS33
A/C: 4034566

**JP Morgan Chase Bank (USD)**
New York
BIC: CHASUS33
A/C: 400808625

**Standard Chartered Bank (USD)**
New York
BIC: SCBLUS33
A/C: 3582052360001, 3582052360002 and 3582052637001*

**Wells Fargo Bank N.A. (USD)**
New York
BIC: PNBPUS3NNYC
A/C: 2000191002407 and 2000193003365*

## 03. France

**Crédit Agricole SA (EUR)**
Paris
BIC: AGRIFRPP
A/C: 20533624000*

## 04. United Kingdom

**Bank of Ceylon (UK) Limited (GBP)**
London
BIC: BCEYGB2L
A/C: 0088033458

**Standard Chartered Bank (GBP)**
London
BIC: SCBLGB2L
A/C: 1804813401, 01270435801* and 01271474401*

## 05. Norway

**Den Norske Bank (NOK)**
Oslo
BIC: DNBANOKK
A/C: 7002.02.04808

## 06. Sweden

**Skandinaviska Enskilda**
Banken (SEK)
Stockholm
BIC: ESSESESS
A/C: 52018529803

## 07. Denmark

**Nordea Bank Denmark A/S (DKK)**
Copenhagen
BIC: NDEADKKK
A/C: 5000408909

## 08. Germany

**Commerz Bank AG (EUR)**
Frankfurt
BIC: COBADEFF
A/C: 400872103701 and 400871436200*

**Landesbank Baden – Wuerttemberg (EUR)**
Stuttgart
BIC: SOLADEST
A/C: 2808451

**Standard Chartered Bank (EUR)**
Frankfurt
BIC: SCBLDEF
A/C: 18109406,18149205 and 018112204*

**Unicredit Bank AG (Hypo Vereins Bank)(EUR)**
Munich
BIC: HYVEDEMM
A/C: 69101429

## 09. Luxembourg

**Clearstream Banking S/A**
Luxembourg
BIC: CEDELULL
A/C: 52511-USD and 52511-EUR

## 10. Switzerland

**UBS AG (CHF)**
Zurich
BIC: UBSWCHZH
A/C: 0230000008540805000OW

## 11. Italy

**Banca Intesa BCI (EUR)**
Milan
BIC: BCITITMM
A/C: 100100003820

**Banco Popolare Society Coperation (EUR)**
Verona
BIC: BAPPIT22
A/C: 400000082

**Unicredito Italiano SPA (EUR)**
Rome
BIC: UNCRITMM
A/C: 0995 4268

## 12. United Arab Emirates

**Mashreq Bank (AED)**
Dubai
BIC: BOMLAEAD
A/C: AE270330000010195511268

## 13. Pakistan

**Standard Chartered Bank (ACU$)**
Karachi
BIC: SCBLPKK
A/C: 15000297601USD and 15000288701USD*

## 14. Maldives

**Commercial Bank of Maldives Private Limited (ACU$)**
Malé
BIC: CBMVMVMV
A/C: 1600100051

## 15. India

**Axis Bank Ltd. (ACU$)**
Mumbai
BIC: AXISINBB
A/C: 920020002237636
A/C: 910020049396568*

**ICICI Bank Ltd. (ACU$)**
Mumbai
BIC: ICICINBB
A/C: 406000181 and 406000220*

**Standard Chartered Bank (ACU$)**
Mumbai
BIC: SCBLINBB
A/C: 22205031885

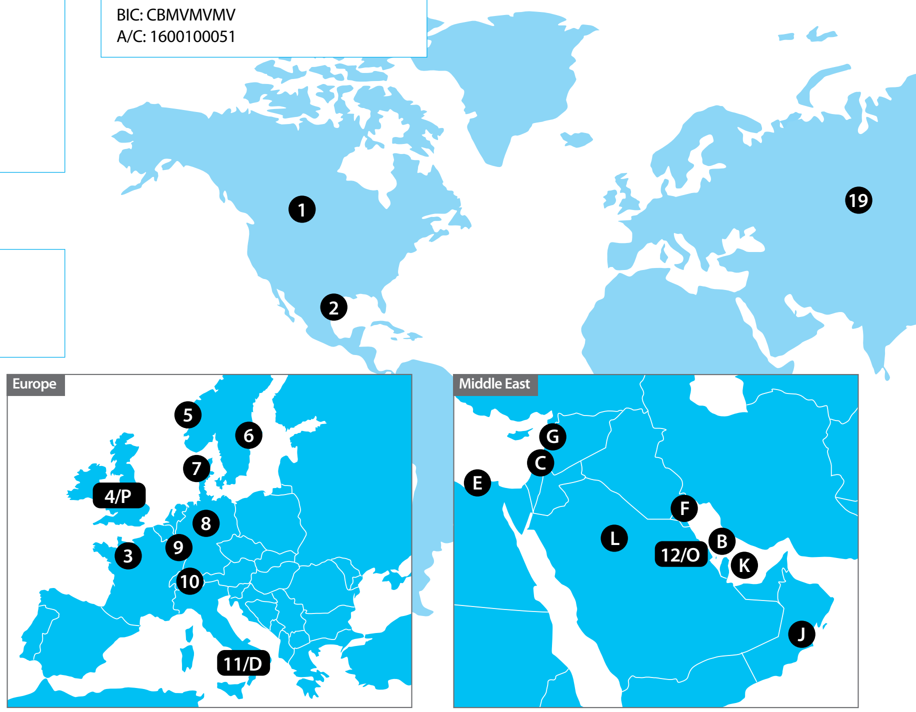
## 16. Bangladesh

**Commercial Bank of Ceylon PLC (ACU$)**
Dhaka
BIC: CCEYBDDH
A/C: 2802000017

## 17. Sri Lanka

**Bank of China Colombo Ltd (CNY)**
Colombo
BIC: BKCHLKLXXXX
A/C: 100002800004204

**Commercial Bank of Ceylon PLC (ACU$)**
Colombo
BIC: CCEYLKLX
A/C: 1420825031*




## 18. Singapore

**Citibank NA**
BIC: CITISGSG
A/C: (USD) 851122001,
(EUR) 851122028 and (GBP) 851122036

**Oversea – Chinese Banking Corp Ltd.**
BIC: OCBCSGSG
A/C: (USD) 503212862301,
(SGD) 695703165001

**Standard Chartered Bank (SGD)**
BIC: SCBLSGSG
A/C: 109344561 and 102318735*

## 19. China

**Standard Chartered Bank (CNY)**
Shanghai
BIC: SCBLCNSX
A/C: 501510533540

## 20. Korea

**Kookmin Bank (USD)**
Seoul
BIC: CZNBKRSE
A/C: 7598USD010 and 7618USD013*

**KEB Hana Bank**
Seoul
BIC: KOEXKRSE
A/C: 0963THR051080010

**Woori Bank (USD)**
Seoul
BIC: HVBKKRSE
A/C: W1027001US


## 21. Japan

**Mufg Bank (JPY)**
Tokyo
BIC: BOTKJPJT
A/C: 653-0461318*

**Standard Chartered Bank (JPY)**
Tokyo
BIC: SCBLJPJT
A/C: 2168531110

**Sumitomo Mitsui Banking Corporation (JPY)**
Tokyo
BIC: SMBCJPJT
A/C: 4395

## 22. Hong Kong

**Standard Chartered Bank**
BIC: SCBLHKHH
A/C: (HKD) 41109468048,
(HKD) 44709419107* and
(CNY) 44709448344

## 23. Australia

**ANZ Banking Group Ltd (AUD)**
Melbourne
BIC : ANZBAU3M
A/C: 944306AUD00001

## 24. New Zealand

**ANZ Bank New Zealand Ltd (NZD)**
New Zealand
BIC : ANZBNZ22
A/C : 944306NZD00001

## A. Australia

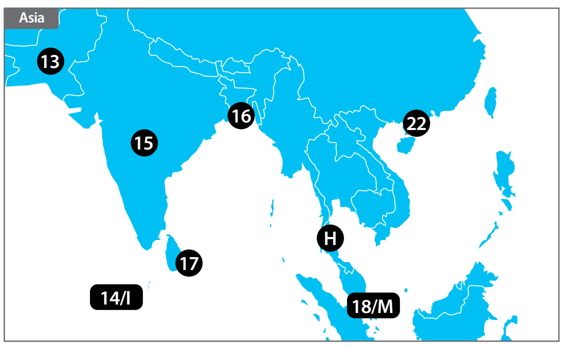
Ceylon Exch. Pvt Ltd
Direct Forex
Harbour & Hills Financial Services Pty
Lanka Currency Converter Pty Ltd

## B. Bahrain

Nat. Finance & Exch. Co. WLL
NEC B.S.C ©
Zenj Exch. Co. WLL

## C. Georgia

JSC MFI IntelExpress




## D. Israel

AMT Financial Services Ltd
S T B Union Ltd
Unigiros Ltd

## E. Italy

National Exch. Co. SRL

## F. Japan

Japan Money Express Co

## G. Jordan

Al Alami Exch. Co
Al Nasir Establishment for Exch
Alawneh Exch. Co
Hekmat Nawras & Partners Exch/Zarqa Exch
Kalil Al Rahman Exch. Co

## H. Kuwait

Al Muzaini Exch. Co
Al Sultan Exch. Co. WLL
Almulla International Exch
Aman Exch. Co. WLL
Bahrain Exch. Co.WLL
City Int Exch. Co.WLL
Joy Alukkas Exch. Co. WLL
Kuwait Asian International Exch
Kuwait Bahrain Int'L Exch
Lulu Exch. Co. WLL
National Exch. Co
National Money Exch. Co
Oman Exch. Co. WLL
UAE Exch. Centre Kuwait

## I. Malaysia

Tranglo SDN BHD

## J. Maldives

Commercial Bank of Maldives

## K. Oman

Al Jadeed Exch. LLC
Bank Muscat
Global Money Exch. Co.LLC
Joyalukkas Exch. LLC
Laxmidas Tharia Ved Exch. Co
Lulu Exch. Co. LLC
Modern Exch. Co.LLC
Oman & UAE Exch. Centre/Unimoni Exch
Purshottam Kanji Exch. Co.LLC
Wasel Exchange SAOC

## L. Qatar

Al Dar For Exch. Works
Al Mana Exch. WLL
Al Mirqab Exch. Co. WLL
Al Zaman Exch
Al Sadd Exch. Co. WLL
Alfardan Exch. Co.
Arabian Exch. Co.
City Exch. Co.WLL
Doha Bank
Doha Exch
Eastern Exch. Establishment
Gulf Exch. Co.
Habib Qatar International Exch
Islamic Exch.Co.WLL
Lulu Exch. Co.
Trust Exch. Co.

## M. Saudi Arabia

Alrajhi Banking & Investment Corp.
Arab National Bank
Bank Albilad
The Saudi British Bank

## N. Singapore

Ample Transfers PTE Ltd

## O. South Korea

Global Money Express
Gmoney Trans Co. Ltd
KEB Hana Bank
Kookmin Bank

## P. United Arab Emirates

Al Ahalia Money Exch. Bureau
Al Ansari Exch. Est
Al Dahab Exch
Al Fardan Exch
Al Faud Exch
Al Ghurair Exch. LLP
Al Ghurair International Exch
Al Razouki International Exchange Company
Al Rostamani Intl' Exch
Delma Exch
Deniba International Exch
Federal Exch
GCC Exch
Index Exch
Joyalukkas Exch
Lari Exch
Leela Megh Exch. LLC
Lulu International Exch. Ll
Orient Exch. Co. LLC
SAAD Exch
Universal Exch. Centre
Worldwide Cash Express Ltd

## Q. United Kingdom

Earthport PLC
Earthport PLC/Visa Payment Ltd
Global Exch. Ltd
iFast Global Bank Ltd
LCC Trans-Sending Ltd

## Global

Moneygram International
Muthoot Finserve USA Inc
Payoneer Inc
Placid Express
Prabhu Group Inc
Ria Financial Services
Transfast Remittance LLC
Transfast Remittance LLC/Mastercard
Transaction Services
Western Union

e-Exchange Agent Network

* Accounts of Bangladesh Operations.

# Annex 10: Glossary of Financial and Banking Terms

## A

### Acceptances
Promise to pay created when the drawee of a time draft stamps or writes the word 'accepted' above his signature and a designated payment date.

### Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Amortisation
The systematic allocation of the depreciable amount of an intangible asset over its useful life.

### Accrual Basis
Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or cash equivalent.

### Actuarial Gain/Loss
Gain or loss arising from the difference between estimates and actual experience in an entity's pension plan.

### Associate
An entity over which the investor has significant influence.

### Amortised Cost
Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or uncollectability.

### Average Weighted Deposit Rate (AWDR)
AWDR is calculated by the Central Bank monthly based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates.

### Average Weighted Prime Lending Rate (AWPLR)
AWPLR is calculated by the Central Bank weekly based on commercial banks' lending rates offered to their prime customers during the week.

## 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.

### Bills Sent for Collection
A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

### Business Continuity Plan
A document that consists of the critical information an organisation needs to continue operating during an unplanned event.

The BCP should state the essential functions of the business, identify which systems and processes must be sustained, and detail how to maintain them. It should take into account any possible business disruption.

### Business Model Assessment
Business model assessment is carried out as the first step of the financial assets classification process. Business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. SLFRS 9 identifies three types of business models: "hold to collect", "hold to collect and sell" and "other". In order to determine the business model, it is necessary to understand the objectives of each business model. An entity would need to consider all relevant information including, for example, how business performance is reported to the entity's key management personnel and how managers of the business are compensated.

## C

### Capital Adequacy Ratio
The percentage of risk-adjusted assets supported by capital as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified by the CBSL to suit local requirements.

### Correspondent Bank
A bank in a foreign country that offers banking facilities to the customers of a bank in another country.

### Commitments
Credit facilities approved but not yet utilised by the clients as at the reporting date.

### Cost/Income Ratio
Operating expenses excluding impairment charge for loans and other losses as a percentage of total operating income.

### Credit Risk Mitigation
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

### Capital Conservation Buffer
Designed to ensure that banks build up buffers of capital outside any periods of stress and to avoid breaches of minimum capital requirements.

### Cash Generating Unit (CGU)
The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

### Contingencies
A condition or situation, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

### 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.

### Currency SWAPs
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

### Cash Equivalents
Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Generating Unit (CGU) The smallest group of assets that independently generates cash flow and the cash flow is largely independent of the cash flows generated by other assets.

### Collectively Assessed Loan Impairment Provisions
Also known as portfolio impairment provisions. Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses that have been incurred but have not yet been identified at the reporting date.

### Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

### Credit Risk
Risk of financial loss to the Bank, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment in debt securities.

### Control
Control is the power over an investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its powers over the investee to affect the amount of the investor's returns.

## D

### Deferred Taxation
Sum set aside in the Financial Statements for taxation that may become payable/receivable in a financial year other than the current financial year. It arises because of temporary differences between tax rules and accounting conventions.

### Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as "Arrears".

### De-minimis
Features that could impact the cash flows of a financial asset by a de minimis amount both on a period by period basis and cumulatively.

### Density ratio
Risk-weighted assets expressed as a percentage of total exposure.

### Derecognition
Removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

### Domestic Systemically Important Banks (D-SIBs)
Systemically Important Banks (SIBs) are perceived as banks that are "Too Big To Fail". D-SIBs are critical for the uninterrupted availability of essential banking services to the country's real economy even during crisis. The CBSL has designated LCBs with total assets equal to or greater than Rs. 500 Bn. as D-SIBs.

### Derivatives
A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. interest rate) that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

## E

### Earnings per Ordinary Share (EPS)
The profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### Effective Interest Rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate (ETR)
Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

### Equity Instrument
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

### Exposure at Default (EAD)
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 & interest and expected drawdowns of committed facilities.

### ESOP (Employee Share Ownership Plan)
A method of giving employees shares in the business for which they work.

### Equity Method
This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

### Expected Credit Losses (ECLs)
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.

### Embedded Derivatives
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand- alone derivative.

## F

### Fair Value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Financial Instrument
A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### Financial Assets
Any assets that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

### Financial Liabilities
A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

### Finance Lease
A lease in which the lessee acquires all financial benefits and risks attaching to ownership of the asset under lease.

### Financial Assets Measured at Fair Value through Profit or Loss (FVTPL)
All financial assets other than those classified at Amortised Cost or FVOCI are classified as measured at FVTPL. These are held for trading or managed and their performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### Forward Exchange Contract
Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

### Financial Assets Measured at Amortised Cost
A financial asset is measured at amortised cost if the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)
FVOCI include debt and equity instruments measured at fair value through other comprehensive income. A debt instrument is measured at FVOCI, if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Equity investments may be irrevocably classified as FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation, and are not held for trading.

### Financial Intermediation Margin
Used to measure the robustness of financial intermediation process, it is gross income expressed as a percentage of average total assets.

## G

### Group
A parent and all its subsidiaries.

### Gross Dividend
The portion of profits distributed to the shareholders including the tax withheld.

### Guarantees
Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

**Global Reporting Initiatives (GRI)**
The GRI is an international independent standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI promotes sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development.

## H

**Hedging**
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rate, foreign exchange rate, commodity prices, etc.).

**High Quality Liquid Assets (HQLA)**
Assets that are unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks.

**Historical Cost**
Historical cost is the original nominal value of an economic item.

## 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 Cover**
A ratio showing the number of times interest charges is covered by earnings before interest and tax.

**Interest Spread**
Represents the difference between the average interest rate earned on interest earning assets and the average interest rate paid on interest-bearing liabilities.

**Impairment**
This occurs when recoverable amount of an asset is less than its carrying amount.

**Intangible Asset**
An intangible asset is an identifiable nonmonetary asset without physical substance.

**Impairment Charge/(Reversal)**
An increase/(decrease) of the difference between the carrying value of an asset and the sum of discounted future cash flows generating from the same asset compared to the previous reporting date.

**Impairment Allowances**
Impairment allowances are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

**Interest Rate SWAP**
An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another stream of future interest payments based on a specified principal amount.

**Investment Properties**
Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

## K

**Knowledge Capital**
Knowledge capital is the intangible value of an organisation made up of its knowledge, relationships, learned techniques, procedures, and innovations. In other words, knowledge capital is the full body of knowledge an organisation possesses.

**Key Performance Indicators (KPIs)**
A set of quantifiable measurements used to gauge a company's overall long-term performance. KPIs specifically help determine a company's strategic, financial, and operational achievements, especially compared to those of other businesses within the same sector.

**Key Management Personnel (KMP)**
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

## L

**Leverage Ratio**
A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.

**Loss given default (LGD)**
LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

**Lessee's incremental borrowing rate (IBR)**
The rate of interest that a lessee 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.

**Liquidity Coverage Ratio – LCR**
Refers to highly liquid assets held by Banks to meet short-term obligations. The ratio represents a generic stress scenario that aims to anticipate market-wide shocks.

**Lifetime Expected Credit Losses (LTECL)**
Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. According to SLFRS 9 on "Financial instruments", the ECL allowance should be based on LTECL unless there has been no significant increase in credit risk since origination.

**Loan-to-value ratio (LTV)**
The LTV ratio is a mathematical expression which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

## M

**Market Capitalisation**
The value of an entity obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

**Market Risk**
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

**Market Risk Premium**
The market risk premium is the difference between the expected return on a market portfolio and the risk-free rate. The market risk premium is equal to the slope of the security market line (SML), a graphical representation of the capital asset pricing model (CAPM).

## N

**Non-Controlling Interest (NCI)**
Equity in a Subsidiary not attributable, directly or indirectly, to a parent.

**Nostro Account**
A bank account held in a foreign country by a domestic bank, denominated in the currency of that country. Nostro accounts are used to facilitate the settlement of foreign exchange trade transactions.

**Net Interest Margin (NIM)**
The margin is expressed as net interest income divided by average interest earning assets.

**Net Assets Value per Share (NAV)**
Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

**Net Interest Income (NII)**
The difference between the amount a bank earns on assets such as loans and securities and the amount it pays on liabilities such as deposits, refinance funds and interbank borrowings.

**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

**Open Credit Exposure Ratio**
Total net non-performing loans and advances expressed as a percentage of regulatory capital base.

**Operational Risk**
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

**Off-balance Sheet Transactions**
Transactions that are not recognised as assets or liabilities in the Statement of Financial Position, which give rise to the commitment and contingencies in future.

## P

### 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.

### Price Earnings Ratio (P/E Ratio)
Market price of a share divided by the earnings per share.

### Probability of Default (PD)
PD is an internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

### Projected Unit Credit Method (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).
Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### Related Parties
One party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specified date and price.

### Right-of-Use Asset (RUA)
An asset that represents a lessee's right to use an underlying asset for the lease term.

### Related Party Transaction (RPT)
RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless whether a price is charged.

### Return on Average Assets (ROA)
Profit after tax expressed as a percentage of the average assets.

### Return on Average Equity (ROE)
Net profit attributable to owners expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement
Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

### Risk-Weighted Assets
The sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk-weighting factors.

### Risk Appetite
It can be described as an organisation's risk capacity, or the maximum amount of residual risk it will accept after controls and other measures have been put in place.

## S

### Segment Reporting
Disclosure of the Bank's assets, income and other information, broken down by activity and geographical area.

### Subsidiary
An entity that is controlled by another entity.

### Shareholders' Funds
Total of issued and fully paid share capital and revenue reserves.

### Significant Increase in Credit Risk (SICR)
According to SLFRS 9, an entity should assess whether the risk of default on a financial instrument has increased significantly since initial recognition. The assessment should consider reasonable and supportable information that is relevant and available without undue cost or effort. There is a rebuttable presumption in the Standard that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

### Substance over Form
The consideration that the accounting treatment and presentation of Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

### SPPI Test
Solely payments of Principal and Interest Test (SPPI) is carried out as the second step of the classification process. "Principal" is defined as the fair value of the financial asset at initial recognition and may change due to repayments of principal or amortisation of the premium or discount.

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding. If a financial asset passes the SPPI test, then it will either be classified at amortised cost if the "hold to collect" business model test is met, or at Fair Value Through Other Comprehensive Income (FVOCI) if the hold to collect and sell" business model test is met. If a financial asset fails the SPPI test it must be classified at Fair Value Through Profit or Loss (FVTPL) in its entirety.

## T

### Tier 1 Capital (Common Equity Tier 1 – CET 1)
Common Equity Tier 1 (CET1) is a component of Tier 1 capital that consists mostly of Stated Capital. It is a capital measure that was introduced as a precautionary measure to protect the economy from a financial crisis.

### Tier 1 Capital (Additional Tier 1 Capital – AT 1)
Additional Tier 1 Capital (AT1) is a component of Tier 1 capital that comprises securities that are subordinated to most subordinated debt, which have no maturity, and their dividend can be cancelled at any time.

### Tier 2 Capital
Capital representing revaluation reserves, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

### Twelve Month Expected Credit Losses (12 Month ECL)
The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

## U

### Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

### Useful Life
The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

### Unsystematic Risk
Unsystematic risk is unique to a specific company or industry. Also known as "nonsystematic risk", "specific risk", "diversifiable risk" or "residual risk", in the context of an investment portfolio, unsystematic risk can be reduced through diversification.

## Y

### Yield to Maturity (YTM)
Discount rate at which the present value of future cash flows would equal the security's current price.

### Yield Curve
A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main types of yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve) and flat.

# Annex 11: Acronyms and Abbreviations

| | |
|---|---|
| AC | Amortised Cost |
| AGM | Annual General Meeting |
| ALCO | Assets and Liabilities Committee |
| AMA | Advanced Measurement Approaches |
| AML | Anti-Money Laundering |
| ASPI | All Share Price Index |
| BAC | Board Audit Committee |
| BCBS | Basel Committee on Banking Supervision |
| BCC | Board Credit Committee |
| BCMSC | Business Continuity Management Steering Committee |
| BCP | Business Continuity Plan |
| BHRRC | Board Human Resources & Remuneration Committee |
| BIA | Basic Indicator Approach |
| BIC | Board Investment Committee |
| BIRMC | Board Integrated Risk Management Committee |
| BIS | Bank for International Settlements |
| BNC | Board Nomination Committee |
| BRPTRC | Board Related Party Transactions Review Committee |
| BSDC | Board Strategy Development Committee |
| BTC | Board Technology Committee |
| CAR | Capital Adequacy Ratio |
| CASA | Current Accounts and Savings Accounts |
| CBSL | Central Bank of Sri Lanka |
| CCB | Capital Conservation Buffer |
| CCR | Counterparty Credit Risk |
| CDS | Central Depository System |
| CET 1 | Common Equity Tier 1 |
| CFM | Close Family Members |
| CPC | Credit Policy Committee |
| CRAB | Credit Rating Agency of Bangladesh |
| CRM | Credit Risk Mitigation |
| CSE | Colombo Stock Exchange |
| CCF | Credit Conversion Factor |
| DBU | Domestic Banking Unit |
| DPD | Days Past Due |
| DRP | Disaster Recovery Plan |
| D-SIB | Domestic Systemically Important Bank |
| EAD | Exposure at Default |
| EAR | Earnings at Risk |
| ECL | Expected Credit Loss |
| ECMN | Executive Committee on Monitoring NPA |
| EGM | Extraordinary General Meeting |
| EIR | Effective Interest Rate |
| EIRMC | Executive Integrated Risk Management Committee |
| ESOP | Employee Share Option Plan |
| EVE | Economic Value of Equity |
| FIS | Fixed Income Securities |
| FVOCI | Financial assets measured at Fair Value through Other Comprehensive Income |
| FVTPL | Financial assets measured at Fair Value through Profit or Loss |
| FX | Foreign Exchange |
| GDP | Gross Domestic Product |
| GRI | Global Reporting Initiatives |
| HQLA | High Quality Liquid Assets |
| IBR | Incremental Borrowing Rate |
| ICAAP | Internal Capital Adequacy Assessment Process |
| ICASL | Institute of Chartered Accountants of Sri Lanka |
| IMF | International Monetary Fund |
| IRMD | Integrated Risk Management Department |
| IRR | Interest Rate Risk |
| IRRBB | Interest Rate Risk in Banking Books |
| ISC | Information Security Council |
| ISO | International Standard Organisation |
| ISMS | Information Security Management System |
| IIRC | International Integrated Reporting Council |
| KPIs | Key Performance Indicators |
| KRIs | Key Risk Indicators |
| KIRI | Key IT Risk Indicators |
| KMP | Key Management Personnel |
| KORI | Key Operational Risk Indicators |
| LCB | Licensed Commercial Bank |
| LCR | Liquidity Coverage Ratio |
| LGD | Loss Given Default |
| LSB | Licensed Specialised Bank |
| LTECL | Life Time Expected Credit Loss |
| LTV | Loan to Value Ratio |
| MATs | Management Action Triggers |
| MRMU | Market Risk Management Unit |
| MSME | Micro Small and Medium Enterprises |
| NCI | Non-Controlling Interest |
| NII | Net Interest Income |
| NIM | Net Interest Margin |
| NOP | Net Open Position |
| NPA | Non-Performing Assets |
| NPL | Non-Performing Loans |
| NSFR | Net Stable Funding Ratio |
| OCI | Other Comprehensive Income |
| PAT | Profit After Tax |
| PBT | Profit Before Tax |
| PD | Probability of Default |
| PER | Price Earnings Ratio |
| POCI | Purchased or Originated Credit Impaired (Financial Assets) |
| RAS | Risk Appetite Statement |
| RCSA | Risk Control Self Assessment |
| ROA | Return on Assets |
| ROCE | Return on Capital Employed |
| ROE | Return on Equity |
| RPT | Related Party Transactions |
| RSA | Rate Sensitive Assets |
| RSL | Rate Sensitive Liabilities |
| RWA | Risk Weighted Assets |
| RUA | Right of Use Asset |
| SA | Standardised Approach |
| SEC | Securities and Exchange Commission of Sri Lanka |
| SEMS | Social and Environmental Management System |
| SICR | Significant Increase in Credit Risk |
| SLAR | Statutory Liquid Assets Ratio |
| SLDB | Sri Lanka Development Bond |
| SLFRS | Sri Lanka Financial Reporting Standards |
| SME | Small and Medium Enterprise |
| SOFP | Statement of Financial Position |
| SPPI | Solely Payment of Principal and Interest |
| SLSB | Sri Lanka Sovereign Bond |
| UNGC | United Nations Global Compact |
| WSME | Women, Small and Medium Enterprises |
| VaR | Value at Risk |
| YoY | Year-on-Year |
| 12mECL | 12 months Expected Credit Loss |

# Annex 12: Alphabetical Index

# Annex 13: Index of Figures, Tables and Graphs

## Figures



## Tables

Graphs



Graphs

# Notice of Meeting – Annual General Meeting

Notice is hereby given that the Fifty-Fourth (54th) Annual General Meeting (AGM) of the Commercial Bank of Ceylon PLC (the "Company") will be held on Thursday, March 30, 2023 at 2.30pm at the Galadari Hotel, No. 64, Lotus Road, Colombo 01, for the following purposes: -

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2022 together with the Report of the Auditors thereon.

2. To declare a dividend as recommended by the Board of Directors and to consider and if thought fit, to pass the following resolutions:

    (i) **Declaration of a first and final dividend and approval of its method of satisfaction [Dividend Resolution No. 1]: To consider and if thought fit to pass the following resolution by way of an Ordinary Resolution. [To be passed only by the ordinary (voting) shareholders].**

**THAT** a first and final dividend of Rs. 4.50 per issued and fully paid ordinary (voting) and (non-voting) share constituting a total sum of Rs. 5,579,001,211.50 (subject to applicable government taxes) based on the issued ordinary (voting) and (non-voting) shares as at February 23, 2023 [subject however to necessary amendments being made to such amount to include the dividends pertaining to the options that may be exercised by employees under the Commercial Bank of Ceylon PLC (the "Company") Employee Share Option Plan (ESOP) schemes] be and is hereby declared for the financial year ended December 31, 2022 on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company;

**THAT** the shareholders entitled to such dividend would be those shareholders [both ordinary (voting) and (non-voting)], whose names have been duly registered in the Shareholders' Register maintained by the Registrars of the Company [i.e. SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03] and also those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ("CDS") as at end of trading on the Record Date [i.e. the third (3rd) market day from and excluding the date of the meeting] (the "Entitled Shareholders");

**THAT** subject to the shareholders (a) waiving their pre-emptive rights to new share issues; and (b) approving the proposed allotment and issue of new ordinary (voting) and (non-voting) shares by passing the resolutions set out in items 2(ii) and 2(iii) below, the declared first and final dividend of Rs. 4.50 per issued and fully paid ordinary (voting) and (non-voting) share be distributed and satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares (the "distribution scheme") based on the share prices of ordinary (voting) and (non-voting) shares as at February 23, 2023 to the Entitled Shareholders;

The allotment and issue of new ordinary (voting) and (non-voting) shares in satisfaction of the total dividend entitlement amounting to a sum of Rs. 5,579,001,211.50 (subject to applicable government taxes).

**THAT** accordingly and subject to the approval of the shareholders being obtained in the manner aforementioned, the implementation of the said distribution scheme shall be by way of the allotment and issue of new shares:

The total sum of:

– Rs. 5,252,563,989.00 (subject however to necessary amendments being made to such amount to include the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes) to which the ordinary (voting) shareholders are entitled (subject to applicable government taxes); and

– Rs. 326,437,222.50 to which the ordinary (non-voting) shareholders are entitled (subject to applicable government taxes),

shall be satisfied by the allotment and issue of new ordinary (voting) and (non-voting) shares to the Entitled Shareholders of the ordinary (voting) and (non-voting) shares, respectively, on the basis of the following ratios:

- 01 new fully paid ordinary (voting) share for every 16.9934641119 existing issued and fully paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at end of trading on February 23, 2023; and
- 01 new fully paid ordinary (non-voting) share for every 14.3529417933 existing issued and fully paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at end of trading on February 23, 2023.

**THAT** the ordinary (voting) and (non-voting) residual share fractions, respectively, arising in pursuance of the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares after applying the formulas referred to in the sub heading "Residual Fractions of Shares" in the "Circular to the Shareholders on the First and Final Dividend for 2022" dated March 8, 2023 be aggregated and the ordinary (voting) and (non-voting) shares, respectively, arising consequent to such aggregation be allotted to Trustees to be nominated by the Board of Directors of the Company, and that the Trustees so nominated and appointed be permitted to hold the said shares in trust until such shares are sold by the Trustees on the trading floor of the Colombo Stock Exchange, and that the net sale proceeds thereof be donated to a charity or charities approved by the Board of Directors of the Company;

**THAT** the new shares to be issued in pursuance of the said distribution scheme constituting a total issue of 68,687,375 new ordinary (voting) shares, based on the issued and fully paid ordinary (voting) shares as at February 23, 2023, (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes) and 5,054,128 new ordinary (non-voting) shares based on the issued and fully paid ordinary (non-voting) shares as at February 23, 2023 shall, immediately consequent to due allotment thereof to the Entitled Shareholders rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary (voting) shares and the existing issued and fully paid ordinary (non-voting) shares of the Company, respectively, including the entitlement to participate in any dividend that may be declared after the date of allotment thereof and shall be listed on the Colombo Stock Exchange; and

**THAT** the new ordinary (voting) and (non-voting) shares to be so allotted and issued shall not be eligible for the payment of the dividend declared hereby and which dividend shall accordingly be payable only on the 1,167,236,442 existing issued and fully paid ordinary (voting) shares as at February 23, 2023 (subject to amendments thereto to include the shares arising on the options that may be exercised by the employees under the Company's ESOP schemes) and 72,541,605 existing issued and fully paid ordinary (non-voting) shares as at February 23, 2023.

**(ii) Waiver of Pre-emption Rights (Dividend Resolution No. 2):**

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No.1 above, to consider and if thought fit to pass the following Resolution by way of an Ordinary Resolution (To be passed by a separate vote of the ordinary (voting) shareholders and of the ordinary (non-voting) shareholders, respectively):

**THAT** the pre-emptive right to a new issue of shares provided for by Article 9A of the Articles of Association of Commercial Bank of Ceylon PLC (the "Company"), be and is hereby waived in respect of the following proposed issue of new shares to be effected by the Company for purposes of satisfying the first and final dividend for the year ended December 31, 2022:

"The allotment and issue of 68,687,375 new ordinary (voting) shares (subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Company's ESOP schemes), and 5,054,128 new ordinary (non-voting) shares credited as fully paid to Entitled Shareholders and which new shares shall rank equal and *pari passu* with the existing issued and fully paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares".

**(iii) Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3):**

Subject to the passing of the Ordinary Resolution set out in Dividend Resolution No. 1 above, to consider and if thought fit to pass the following Resolution by way of a Special Resolution [To be passed by a separate vote of the ordinary (voting) shareholders and of the ordinary (non-voting) shareholders, respectively]:

**THAT** the proposed allotment and issue of 68,687,375 new ordinary (voting) shares [subject however to the necessary amendments being made to such number to include the dividend on the options that may be exercised by the employees under the Commercial Bank of Ceylon PLC (the "Company") ESOP schemes] and 5,054,128 new ordinary (non-voting) shares credited as fully paid to Entitled Shareholders and which new shares shall rank equal and *pari passu* with the existing issued and fully paid ordinary (voting) and (non-voting) shares of the Company including the right to participate in any dividend which may be declared after the date of allotment of such shares be and is hereby approved in pursuance of Section 99 of the Companies Act No. 07 of 2007 (as amended) and Article 10 of the Articles of Association of the Company; and

**THAT** accordingly the Company's management be and is hereby authorised to take all requisite statutory and procedural formalities in order to give effect to the aforesaid proposed issue of new ordinary (voting) and (non-voting) shares of the Company.

3. To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, retire by rotation or otherwise as given below:
   - (i) To re-elect Ms N T M S Cooray who retires by rotation in terms of Article 86 of the Articles of Association.
   - (ii) To re-elect Ms J Lee who retires by rotation in terms of Article 86 of the Articles of Association.
   - (iii) To elect Dr S Selliah who was appointed to the Board in terms of Article 92 of the Articles of Association.
   - (iv) To elect Mr S Prabagar who was appointed to the Board in terms of Article 92 of the Articles of Association.
   - (v) To elect Mr D N L Fernando who was appointed to the Board in terms of Article 92 of the Articles of Association.
4. (i) To re-appoint Messrs Ernst & Young, Chartered Accountants, as recommended by the Board of Directors as the Company's Auditors for the financial year ending December 31, 2023; and

   (ii) To authorise the Board of Directors to determine the remuneration of the Auditors for the financial year ending December 31, 2023.
5. To authorise the Board of Directors to determine donations for the year 2023.

By Order of the Board of Commercial Bank of Ceylon PLC,

**R A P Rajapaksha**
*Company Secretary*

Colombo

March 08, 2023

*Notes:*

*(i) A duly registered and entitled holder of the Company's ordinary (voting) shares is entitled to attend, speak and vote at the AGM and is entitled to appoint a proxyholder to attend, speak, and vote in his/her stead.*

*(ii) A duly registered and entitled holder of the Company's ordinary (non-voting) shares is entitled only to attend and speak at the AGM and to vote only on the resolutions set out in items 2(ii) and 2(iii) of the Notice of Meeting. Such a shareholder is entitled to appoint a proxyholder to attend, and speak on his/her behalf and to vote only on the resolutions set out in items 2(ii) and 2(iii) of the Notice of Meeting.*

*(iii) A proxyholder need not be a shareholder of the Company.*

*(iv) A Form of Proxy is sent along with this Report.*

*(v) The Form of Proxy completed legibly should be forwarded to the Company, by facsimile on 011 233 2317 or email to companysecretary@combank.net or by post to Company Secretary, Commercial Bank of Ceylon PLC, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not later than forty-eight (48) hours before the time appointed for the holding of the AGM.*

# Circular to the Shareholders on the First and Final Dividend for 2022

COMMERCIAL BANK

Dear Shareholder/s,

**First and Final Dividend for the year ended December 31, 2022 to be Satisfied by the Allotment and Issue of New Shares.**

The Board of Directors of the Commercial Bank of Ceylon PLC (the "Company"), is pleased to inform its Shareholders that, a first and final dividend distribution of Rs. 4.50 per each existing issued and fully paid ordinary (voting) and (non-voting) share has been recommended for the financial year ended December 31, 2022 for due declaration by the Shareholders at the Annual General Meeting ("AGM") to be held on Thursday, March 30, 2023 (the date of the AGM) at 2.30pm at the Galadari Hotel, No. 64, Lotus Road, Colombo 01 and such dividend so declared will be paid out of the profits of the Company for the financial year ended December 31, 2022, which would be subject to applicable government taxes.

The Board of Directors is confident that, the Company will be able to satisfy the solvency test set out in Section 57 of the Companies Act No. 07 of 2007 (as amended) ["CA 2007"] immediately post-payment of such dividend. A Certificate of Solvency has been provided by the Company's Auditors, Messrs Ernst & Young, Chartered Accountants.

Subject to obtaining the approval of the Shareholders, the said dividend will be satisfied in accordance with a distribution scheme whereby new ordinary (voting) and (non-voting) shares will be allotted and issued, in satisfaction of the dividend entitlement, constituting a total sum of Rs. 5,579,001,211.50 (subject to applicable government taxes) based on the issued and fully paid ordinary (voting) and (non-voting) shares of the Company as at February 23, 2023 (subject however to necessary amendments being made to such sum to accommodate the dividend payable on the options that may be exercised by employees under the Company's ESOP schemes).

Accordingly, and in pursuance of the aforesaid distribution scheme, the Company proposes to issue:

(a) 68,687,375 number of new ordinary (voting) shares, calculated based on the issued and fully paid ordinary (voting) shares as at February 23, 2023 [subject however to necessary amendments being made to such number to include the dividend on the options that may be exercised by employees under the Company's ESOP schemes], and on the basis of their market value (closing price) as at end of trading on February 23, 2023; and

(b) 5,054,128 number of new ordinary (non-voting) shares calculated based on the issued and fully paid ordinary (non-voting) shares as at February 23, 2023 and on the basis of their market value (closing price) as at end of trading on February 23, 2023.

An announcement will be made by the Company three market days prior to the date of the AGM on the final number of ordinary (voting) and (non-voting) shares to be issued in satisfaction of the said dividend.

The said shares shall be issued in the following ratios to the Entitled Shareholders of the Company as defined below:

(a) 01 new fully-paid ordinary (voting) share for every 16.9934641119 existing issued and fully-paid ordinary (voting) shares calculated on the basis of the market value of the ordinary (voting) shares as at end of trading on February 23, 2023; and

(b) 01 new fully-paid ordinary (non-voting) share for every 14.3529417933 existing issued and fully-paid ordinary (non-voting) shares calculated on the basis of the market value of the ordinary (non-voting) shares as at end of trading on February 23, 2023.

The above share ratio is based on a value of Rs. 65.00 per ordinary (voting) share and Rs. 54.90 per ordinary (non-voting) share (subject to applicable government taxes) as at the end of trading on February 23, 2023. The Board of Directors is satisfied that the aforementioned values which constitute the consideration for which the new shares are to be allotted and issued is fair and reasonable to the Company and to all its Existing Shareholders.

## Entitled Shareholders

Shareholders entitled to participate in the said dividend are those who are duly registered in the Company's Share Register and also those shareholders whose names appear on the Central Depository Systems (Pvt) Ltd. ('CDS') as at end of trading on the Record Date [i.e. the third (3rd) market day from and excluding the date of the meeting] (the 'Entitled Shareholders').

In calculating the number of shares held by a shareholder as at the relevant date for the proposed allotment and issue of new shares, the shareholding of the shareholder as appearing in the CDS and the Shareholders' Register maintained by the Registrars of the Company [i.e. SSP Corporate Services (Pvt) Ltd., No. 101, Inner Flower Road, Colombo 03] will not be aggregated. However, if a shareholder holds shares with multiple stockbrokers, the shares held with multiple stockbrokers will be aggregated for calculation purposes, and the shares arising as a result of the proposed issue and allotment of new shares will be uploaded proportionately to the respective CDS accounts held with each broker. The Company has obtained the approval in principle of the Colombo Stock Exchange ("CSE") for the proposed allotment and issue of new shares.

## Residual Fractions of Shares

The residual fractions arising from the aforementioned allotment and issue of new ordinary (voting) and (non-voting) shares, respectively, will be aggregated and the shares arising consequent thereto will, subject to receiving the approval of the Shareholders therefor, be allotted to Trustees to be nominated by the Board of Directors. The Trustees so nominated, will hold the said shares in trust until such shares are sold by the Trustees on the trading floor of the CSE. The net sale proceeds arising therefrom shall, subject to receiving the approval of the Shareholders therefor, be distributed to a charity/charities approved by the Board of Directors. The sale of such shares will be effected by the Company within a reasonable period of time, following the date on which the approval of the Shareholders has been obtained in this regard.

Residual fractions of ordinary (voting) and (non-voting) shares above-mentioned shall mean the above-mentioned fractions arising after applying the following formulas, respectively:

For voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date X 1}}{16.9934641119}$$

For non-voting shareholders –

$$\frac{\text{Number of shares held by a shareholder as at end of trading on the Record Date X 1}}{14.3529417933}$$

## Status of the New Shares

The new ordinary (voting) and (non-voting) shares to be so issued, immediately consequent to due allotment thereof to the Entitled Shareholders, shall rank equal and *pari passu* in all respects with the existing issued and fully paid ordinary (voting) and (non-voting) shares, respectively, of the Company.

## Listing/Central Bank approval

An application has been made to the CSE for listing the new ordinary (voting) and (non-voting) shares on the official list of the CSE. This application has been approved 'in principle' by the CSE. The Company will obtain approval of the Department of Foreign Exchange of the Central Bank of Sri Lanka in principle for the allotment and issue of the new ordinary (voting) and (non-voting) shares to the Company's non-resident Shareholders, where applicable.

## Shareholder Approvals

The proposed method of satisfying the abovementioned first and final dividend is subject to Shareholders granting approval therefor by passing the resolutions set out in the attached Notice of Meeting pertaining to the following matters:

- Authorisation to satisfy the first and final dividend by an allotment and issue of new shares:

Article 124 of the Company's Articles of Association provides, in effect, that, subject to the provisions of CA 2007, the Board is empowered to pay a dividend or otherwise make a distribution in whole or in part by the distribution of specific assets and in particular of paid up shares. In pursuance of principles of transparency, the Board seeks the authorisation of Shareholders for the satisfaction of the first and final dividend by the issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant Ordinary Resolution to be passed by the Shareholders in this regard is set out in item 2(i) of the attached Notice of Meeting.

- Waiver of pre-emption rights to new share issues [Article 9A]:

In terms of Article 9A of the Company's Articles of Association, any issue of shares beyond 500,000 shares must be first offered to the Shareholders in proportion to their holding at the time of the offer, unless otherwise authorised by an Ordinary Resolution of the Company.

As mentioned previously, the first and final dividend is proposed to be satisfied, by the allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above and on the above-mentioned application of the above-mentioned share proportion. The said allotment and issue of new shares would accordingly be in excess of 500,000 shares. As such, the authorisation of Shareholders is sought under and in terms of the above-mentioned Article 9A for the waiver by Shareholders of their pre-emption rights to the new shares to be issued exceeding 500,000 ordinary (voting) and (non-voting) shares. The relevant Ordinary Resolution to be passed by the Shareholders in this regard is set out in item 2(ii) of the attached Notice of Meeting.

- Alteration of Shareholder Rights [Section 99 of the CA 2007 and Article 10 of the Articles of Association]:

The Company is required, in compliance with the above provisions, to seek Shareholder approval by way of a Special Resolution for the proposed method of satisfaction of the first and final dividend by an allotment and issue of new ordinary (voting) and (non-voting) shares in the manner set out above. The relevant Special Resolution to be passed by the Shareholders in this regard is set out in item 2(iii) of the attached Notice of Meeting.

## Confirmation of Compliance

The Board of Directors hereby confirms that the allotment and issue of new shares is in compliance with the Articles of Association of the Company, the Listing Rules of the CSE and the provisions of the CA 2007.

## Allotment of the New Shares

The Board of Directors emphasises that the aforementioned allotment and issue of new shares is in satisfaction of the first and final dividend for the year ended December 31, 2022 and shall be dependent on and subject to the Shareholders passing the requisite resolutions.

## Uploading of Shares in to CDS Accounts

In the event that the requisite resolution declaring the dividend (including its manner of satisfaction thereof) by way of the issue and allotment of new shares is passed by the Shareholders, the accounts of the Shareholders whose shares are deposited in the CDS would be directly uploaded with the new shares to the extent that such Shareholder has become entitled thereto.

The shares would be uploaded within five (05) market days from and excluding the Record Date. If a Shareholder holds multiple CDS accounts, the total entitlement will be directly deposited to the respective CDS accounts proportionately. Pursuant to a Direction issued by the Securities and Exchange Commission of Sri Lanka ('SEC') pertaining to the de-materialisation of listed securities, the Shareholders who hold shares in scrip form (i.e. Share Certificates) as per the Share Register maintained by the Registrars of the Company, will not be issued Share Certificates for the new shares allotted and issued in their favour. Such Shareholders are accordingly requested to open an account with the CDS and to deposit their Share Certificates in the CDS prior to the date of the AGM of the Company. This will enable the Company to deposit the new shares directly into the Shareholder's CDS account.

If a Shareholder fails to deposit his/her existing ordinary (voting) and/or (non-voting) shares in the CDS prior to the date of the AGM, such Shareholder's entitlement of new ordinary (voting) and/or (non-voting) shares will be deposited by the Company after such Shareholder has opened a CDS account and has informed the Company's Registrars in writing of his/her CDS account number. Until such CDS account is opened by a Shareholder as aforementioned, the new ordinary (voting) and (non-voting) shares that are allotted in his/her favour will be registered in such shareholder's account in the Share Register maintained by the Registrars of the Company (subject to compliance with the requirements of the Department of Foreign Exchange of the Central Bank of Sri Lanka as may be applicable in respect of non-resident shareholders). Consequent to the opening of the CDS account by such Shareholder, the new shares will be credited to such CDS account. Direct uploads pertaining to written requests received from Shareholders to deposit such shares will be done on a weekly basis.

## Annual General Meeting (AGM)

Attached hereto is the Annual Report comprising the Notice convening the AGM for March 30, 2023 and setting out in item 2 thereof, the relevant resolution to be passed by the Shareholders in the above regard.

## Form of Proxy

Shareholders who are unable to attend the AGM in person are entitled to appoint a proxy to attend and speak and also vote on their behalf, depending on their voting rights. If you wish to appoint such a proxy, kindly complete and return the enclosed Form of Proxy (in accordance with instructions specified therein) to the Company by facsimile on 011 233 2317 or email to companysecretary@combank.net or by post to Company Secretary, Commercial Bank of Ceylon PLC, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, not later than forty-eight (48) hours before the time appointed for the holding of the AGM.

Yours faithfully,

By Order of the Board of Commercial Bank of Ceylon PLC

**R A P Rajapaksha**
*Company Secretary*

Colombo

March 08, 2023

# Form of Proxy (Voting Shareholders)

I/We ……………………………………………………………………… of ……………………………………………………………………

……………………………………………………………………… being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint

…………………………………… (NIC No. ……………..…………….) of …………………………………………………………… whom failing:

| | |
|---|---|
| Prof Ananda Kithsiri Wijenayaka Jayawardane | whom failing |
| Mr Sharhan Muhseen | whom failing |
| Mr Sanath Chandima Udayakumara Manatunga | whom failing |
| Mr Lakshman Dushyantha Niyangoda | whom failing |
| Ms Nawalage Therese Manouri Shiromal Cooray | whom failing |
| Ms Judy Lee | whom failing |
| Mr Raja Senanayake | whom failing |
| Ms Dehiwala Liyanage Thushara Samanthi Wijewardena | whom failing |
| Dr Sivakumar Selliah | whom failing |
| Mr Sellathurai Prabagar | whom failing |
| Mr Diyalanthonige Nimal Lucias Fernando | |

as my/our Proxyholder to represent me/us and to speak at the Meeting and to vote on a show of hands or on a poll on my/our behalf as indicated below (and strictly in relation to the matters set out hereunder) at the Fifty-Fourth (54th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Thursday, March 30, 2023 at 2.30pm., and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below. (Please indicate your preference with a "√" in the relevant box.)

| | | For | Against |
|---|---|---|---|
| 1. | To receive and consider the Annual Report of the Board of Directors on the affairs of the Company, the Statement of Compliance and the Financial Statements for the year ended December 31, 2022 together with the Report of the Auditors thereon. | ☐ | ☐ |
| 2. | To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolutions set out in the attached Notice of Meeting: | | |
| | i. Declaration of a first and final dividend and approval of its method of satisfaction (Dividend Resolution No. 1) | ☐ | ☐ |
| | ii. Waiver of pre-emption rights (Dividend Resolution No. 2) | ☐ | ☐ |
| | iii. Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3) | ☐ | ☐ |
| 3. | To re-elect/elect the following Directors who, in terms of the Company's Articles of Association, are retiring by rotation or otherwise as given below: | | |
| | i. To re-elect Ms N T M S Cooray who retires by rotation in terms of Article 86 of the Articles of Association. | ☐ | ☐ |
| | ii. To re-elect Ms J Lee who retires by rotation in terms of Article 86 of the Articles of Association. | ☐ | ☐ |
| | iii. To elect Dr S Selliah who was appointed to the Board in terms of Article 92 of the Articles of Association. | ☐ | ☐ |
| | iv. To elect Mr S Prabagar who was appointed to the Board in terms of Article 92 of the Articles of Association. | ☐ | ☐ |
| | v. To elect Mr D N L Fernando who was appointed to the Board in terms of Article 92 of the Articles of Association. | ☐ | ☐ |
| 4. | (i) To re-appoint Messrs Ernst & Young, Chartered Accountants as recommended by the Board of Directors, as Auditors to the Company for the Financial Year ending December 31, 2023. | ☐ | ☐ |
| | (ii) To authorise the Board of Directors to determine the remuneration of the Auditors for the Financial Year ending December 31, 2023. | ☐ | ☐ |
| 5. | To authorise the Board of Directors to determine donations for the year 2023. | ☐ | ☐ |

Signed on this ………………………………… day of ………………………………… Two Thousand and Twenty Three.

| | | |
|---|---|---|
| …………………… | ……………………………… | ……………………………………..… |
| Folio Number | Signature/s of shareholder/s | NIC/PP/Co. Reg. No. of shareholder/s |

*Notes:*

*Instructions as to completion of this Form of Proxy are given below.*

*(i) As regards voting on the Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he/she thinks fit.*

*(ii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.*

*(iii) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its constitutional documents, if any, or be signed by its attorney or by an officer on behalf of the company/corporate body, in accordance with its Articles of Association/Statute.*

*(iv) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.*

*(v) The use of the word "Member/s" herein is a reference to "Shareholder/s".*

## Instructions as to completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

(i) In the case of an individual shall be signed by the appointor or by his attorney; or in the case of a corporation shall be either under the common seal or signed by its attorney or by an officer authorised to do so on behalf of the corporation. The Company may, but shall not be bound to require evidence of the authority of any such attorney or officer.

(ii) A proxy need not be a member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

(c) The full name and address of the proxyholder and of the shareholder appointing the proxyholder should be entered legibly in the Form of Proxy.

(d) The duly completed Form of Proxy should be deposited at the Registered Office of Commercial Bank of Ceylon PLC, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka or by facsimile on 011 233 2317 or email to companysecretary@combank.net, not later than forty-eight (48) hours before the time appointed for the holding of the meeting.

(e) Articles 57 to 60 of the Articles of Association of the Company, dealing with voting are quoted below, for information of Shareholders:

"**57. Method of voting**

At any General Meeting, a resolution put to the vote of the Meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(i) The Chairman of the meeting; or

(ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or

(iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

A demand for a poll may be withdrawn. Unless a poll be demanded (and the demand be not withdrawn), a declaration by the Chairman of the meeting that a resolution has been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

**58. How a poll is to be taken**

If a poll is duly demanded (and the demand be not withdrawn), it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Meeting may direct, and the result of the poll shall be deemed to be the resolution of the Meeting at which the poll was demanded. The Chairman may (and if so requested shall), appoint scrutineers and may adjourn the Meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.

**59. Chairman's casting vote**

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

**60. Time for taking a poll**

A poll demanded on the election of a Chairman of the Meeting or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than thirty days from the date of the Meeting) and place as the Chairman may direct. No notice need be given of a poll not taken immediately."

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**REQUEST TO SHAREHOLDERS**

SHAREHOLDERS ARE KINDLY REQUESTED TO INDICATE THE "FOLIO NUMBER" APPEARING IN THE ADDRESS LABEL (PASTED ON THE ENVELOPE) IN THE SPACE PROVIDED FOR "FOLIO NUMBER" IN THE FORM OF PROXY. THIS IS FOR THE CONVENIENCE OF THE REGISTRARS. PLEASE NOTE THAT NON-INDICATION OF THE "FOLIO NUMBER" WILL NOT INVALIDATE THE FORM OF PROXY, UNDER ANY CIRCUMSTANCES.

# Form of Proxy (Non-Voting Shareholders)

I/We ……………………………………………………………………… of.………………………………………………………………………

……………………………………………………………………… being a shareholder/s of Commercial Bank of Ceylon PLC hereby appoint

……………………………… (NIC No. ……………….) of ………………………………………………………………………………………

…………………………………………………………………………………………………………………………………………… whom failing:

| | |
|---|---|
| Prof Ananda Kithsiri Wijenayaka Jayawardane | whom failing |
| Mr Sharhan Muhseen | whom failing |
| Mr Sanath Chandima Udayakumara Manatunga | whom failing |
| Mr Lakshman Dushyantha Niyangoda | whom failing |
| Ms Nawalage Therese Manouri Shiromal Cooray | whom failing |
| Ms Judy Lee | whom failing |
| Mr Raja Senanayake | whom failing |
| Ms Dehiwala Liyanage Thushara Samanthi Wijewardena | whom failing |
| Dr Sivakumar Selliah | whom failing |
| Mr Sellathurai Prabagar | whom failing |
| Mr Diyalanthonige Nimal Lucias Fernando | |

as my/our Proxyholder to represent me/us and to speak at the meeting and to vote on a show of hands or on a poll on my/our behalf as indicated below (and strictly in relation to the matters set out hereunder) at the Fifty-Fourth (54th) Annual General Meeting (AGM) of Commercial Bank of Ceylon PLC which is scheduled to be held on Thursday, March 30, 2023 at 2.30pm. and at any adjournment thereof and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our Proxy to vote on my/our behalf in accordance with the preference as indicated below. (Please indicate your preference with a "√" in the relevant box.)

| **Item in the Notice of Meeting** | | For | Against |
|---|---|---|---|
| 2 | To declare a dividend as recommended by the Directors and to consider and if thought fit, to pass the following resolutions set out in the attached Notice of Meeting: | | |
| | (ii) Waiver of pre-emption rights (Dividend Resolution No. 2) | | |
| | (iii) Approval of an issue of ordinary (voting) and (non-voting) shares (Dividend Resolution No. 3) | | |

Signed on this ………………………………… day of …………………………………………… Two Thousand and Twenty Three.

| | | |
|---|---|---|
| …………………… | ……………………………… | …………………………… |
| Folio Number | Signature/s of shareholder/s | NIC/PP/Co. Reg. No. of shareholder/s |

*Notes:*

*Instructions as to completion of this Form of Proxy are given overleaf.*

*(i) Shareholders of non-voting shares are entitled only to attend and speak at the Meeting and to vote only in respect of the Resolutions set out in items 2 (ii) and 2 (iii) of the Notice of Meeting. As regards voting on the said two (02) Resolutions indicated in the Form of Proxy, if no words are struck out or there is in the view of the Proxyholder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the Shareholder) as to the way in which the Proxyholder should vote, the Proxyholder will vote as he/she thinks fit.*

*(ii) If the Form of Proxy is signed by an attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration in the event such POA has not already been registered with the Company.*

*(iii) If the Shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal or in such other manner as provided for in its constitutional documents, if any, or be, signed by its attorney or by an officer on behalf of the company/corporate body in accordance with its Articles of Association/Statute.*

*(iv) Every alteration or addition to the Form of Proxy must be duly authenticated by the full signature of the Shareholder signing the Form of Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.*

*(v) The use of the word "Member/s" herein is a reference to "Shareholder/s".*

## Instructions as to completion of Form of Proxy

(a) Article 68 of the Articles of Association of the Company provides that: "An instrument appointing a proxy shall be in writing, and

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(ii) A proxy need not be a member of the Company".

(b) In terms of Article 63 of the Articles of Association of the Company:

"In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the name stands in the Register of Members in respect of the joint holding".

(c) The full name and address of the proxyholder and of the shareholder appointing the proxyholder should be entered legibly in the Form of Proxy.

(d) The duly completed Form of Proxy should be deposited at the Registered Office of Commercial Bank of Ceylon PLC, "Commercial House", No. 21, Sir Razik Fareed Mawatha, Colombo 01, Sri Lanka or by facsimile on 011 233 2317 or email to companysecretary@combank.net, not later than forty-eight (48) hours before the time appointed for the holding of the meeting.

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(i) The Chairman of the meeting; or

(ii) Not less than five persons present in person or by attorney or representative or by proxy and entitled to vote; or

(iii) A member or members present in person or by attorney or representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the Meeting.

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**59. Chairman's casting vote**

In the case of an equality of votes, whether on a show of hands or poll, the Chairman of the Meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

**60. Time for taking a poll**

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# Stakeholder Feedback Form

Dear Reader,

Your opinion matters. Please share your views with us.

WHICH STAKEHOLDER GROUPS DO YOU BELONG TO? (You may tick more than one)

- ☐ Shareholder
- ☐ Customer
- ☐ Community
- ☐ Public Authority
- ☐ Investor
- ☐ Employee
- ☐ Student
- ☐ Regulatory Body
- ☐ Journalist
- ☐ Supplier
- ☐ Analyst
- ☐ NGO
- ☐ Service Provider
- ☐ Special Interest Group
- ☐ Other

DOES THE REPORT ADDRESS ISSUES OF GREATEST INTEREST TO YOU?

- ☐ Comprehensively
- ☐ Partially
- ☐ Not at all

RATE YOUR OVERALL IMPRESSION OF THIS REPORT IN TERMS OF:

| | Excellent | Good | Fair | Poor |
|---|---|---|---|---|
| Informative | ☐ | ☐ | ☐ | ☐ |
| Transparent | ☐ | ☐ | ☐ | ☐ |
| Trustworthy | ☐ | ☐ | ☐ | ☐ |
| Comprehensive | ☐ | ☐ | ☐ | ☐ |
| User friendly | ☐ | ☐ | ☐ | ☐ |
| Design and layout | ☐ | ☐ | ☐ | ☐ |
| Style of language | ☐ | ☐ | ☐ | ☐ |
| Overall rating | ☐ | ☐ | ☐ | ☐ |

PLEASE IDENTIFY ANY ADDITIONAL ISSUES THAT YOU THINK SHOULD BE REPORTED ON:

........................................................................................................................

........................................................................................................................

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DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE REPORT – OR ON BANK'S PERFORMANCE IN GENERAL?

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To request information or submit a comment/query to the Bank, please provide the following details and return this page to –

**The Company Secretary**
Commercial Bank of Ceylon PLC
"Commercial House"
No. 21, Sir Razik Fareed Mawatha
P.O. Box 856
Colombo 01
Sri Lanka

Name :

Permanent Mailing Address :

Contact Number/s

- Tel :
- Fax :
- Email :

Name of Company (If applicable) :

Designation (If applicable) :

Company address (If applicable) :

Please tick (✓) the appropriate box

| | Yes | No |
|---|---|---|
| Would you like to receive soft copies of the Commercial Bank's Interim Financial Reports via email? | ☐ | ☐ |
| Would you like to receive news and press releases of Commercial Bank via email? | ☐ | ☐ |
| Would you like to receive any news on our products/services? | ☐ | ☐ |

# CORPORATE INFORMATION

## General

### Name of Company

Commercial Bank of Ceylon PLC

### Company Registration Number

PQ 116

### Legal Form

A public limited liability Company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970.

The Company was re-registered under the Companies Act No. 07 of 2007. Commercial Bank of Ceylon PLC is a Licensed Commercial Bank under the Banking Act No. 30 of 1988.

### Accounting Year-end

December 31

### Tax Payer Identification Number (TIN)

124006007

### Registered Office

"Commercial House"
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856,
Colombo 01, Sri Lanka.
Telephone (General):
+94 11 248 6000-5 (5 lines), 4486000, 7486000, 5486000
SWIFT Code – Sri Lanka: CCEYLKLX
SWIFT Code – Bangladesh: CCEYBDDH
E-mail: info@combank.net
Web: http://www.combank.lk

### Head Office

"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box 856, Colombo 01,
Sri Lanka.

### Stock Exchange Listing

The Ordinary Shares and the Unsecured Subordinated Redeemable Debentures of the Bank are listed on the Colombo Stock Exchange.

### Compliance Officer

Ms A V P K T Amarasinghe

### Information Centre

Telephone: +94 11 235 3333, 735 3333

### Credit Ratings

Sri Lanka Operation

- National Long-term rating: "A(lka)"/Rating; on Rating Watch Negative (RWN)) by Fitch Ratings Lanka Limited in January 2023.
- Basel III Subordinated Debentures: "A(lka)"/Rating; on Rating Watch Negative (RWN) by Fitch Ratings Lanka Limited in November 2022.

Bangladesh Operation

- AAA was re-affirmed by Credit Rating Information & Services Limited in June 2022.

## Professional Expertise

### Lawyers

Messrs Julius & Creasy,
No. 371, R A de Mel Mawatha,
Colombo 03,
Sri Lanka.

### Auditors

Messrs Ernst & Young
Chartered Accountants,
No. 201, De Saram Place,
Colombo 10,
Sri Lanka.

### Registrars

Messrs S S P Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road,
Colombo 03, Sri Lanka.
Telephone: +94 11 257 3894, 257 6871
Facsimile: 2573609
E-mail: sspsec@sltnet.lk
(Kindly direct any queries about the administration of the shareholding to the above Company)

## Subsidiaries and Associate

### Local Subsidiaries

Commercial Development Company PLC
CBC Tech Solutions Limited
CBC Finance Limited
Commercial Insurance Brokers (Pvt) Limited

### Foreign Subsidiaries

Commercial Bank of Maldives Private Limited
CBC Myanmar Microfinance Company Limited
Commex Sri Lanka S.R.L. – Italy *(In the process of voluntary liquidation)*

### Associate

Equity Investments Lanka Limited

## Board of Directors

### Board of Directors

Prof A K W Jayawardane – *Chairman*
Mr S Muhseen – *Deputy Chairman*
Mr S C U Manatunge – *Managing Director/Chief Executive Officer*
Mr L D Niyangoda
Ms N T M S Cooray
Ms J Lee
Mr R Senanayake
Ms D L T S Wijewardena
Dr S Selliah
Mr S Prabagar – *Director/Chief Operating Officer*
Mr D N L Fernando *(appointed w.e.f. February 07, 2023)*
Mr K Dharmasiri *(retired w.e.f. January 08, 2023)*

### Company Secretary

Mr R A P Rajapaksha

### Mandatory Board Committees

### Board Audit Committee

Mr R Senanayake – *Chairman*
Ms N T M S Cooray
Ms J Lee
Ms D L T S Wijewardena
Mr S C U Manatunge – *(By invitation)*
Mr S Prabagar – *(By invitation)*

### Board Integrated Risk Management Committee

Ms J Lee – *Chairperson*
Mr S C U Manatunge
Mr L D Niyangoda
Mr R Senanayake
Ms D L T S Wijewardena
Dr S Selliah
Mr S Prabagar – *(By invitation)*

### Board Nomination Committee

Prof A K W Jayawardane – *Chairman*
Mr S Muhseen
Ms J Lee
Dr S Selliah
Mr S C U Manatunge *(By Invitation)*

### Board Human Resources & Remuneration Committee

Prof A K W Jayawardane – *Chairman*
Mr S Muhseen
Ms J Lee
Dr S Selliah
Mr S C U Manatunge *(By Invitation)*

### Board Related Party Transactions Review Committee

Prof A K W Jayawardane – *Chairman*
Mr L D Niyangoda
Mr R Senanayake
Mr S C U Manatunge *(By Invitation)*
Mr S Prabagar *(By Invitation)*

### Voluntary Board Committees

### Board Credit Committee

Prof A K W Jayawardane – *Chairman*
Mr S Muhseen
Ms N T M S Cooray
Mr S C U Manatunge
Mr S Prabagar

### Board Investment Committee

Mr S Muhseen – *Chairman*
Ms J Lee
Ms N T M S Cooray
Mr S C U Manatunge
Mr S Prabagar
Dr S Selliah *(appointed w.e.f. February 10, 2023)*

### Board Technology Committee

Mr S Muhseen – *Chairman*
Mr S C U Manatunge
Ms D L T S Wijewardena
Mr S Prabagar

### Board Strategy Development Committee

Prof A K W Jayawardane – *Chairman*
Mr S Muhseen
Mr S C U Manatunge
Mr L D Niyangoda
Ms N T M S Cooray
Ms J Lee
Mr R Senanayake
Dr Selliah

### FATCA GIIN Number

GIIN 3TU322.00000.LE.144 (for CBC-CMB)

GIIN 3TU322.00000.BR.050 (for CBC Dhaka)

**For Investor Relations and clarification on this Report please write to:**
Chief Financial Officer
Commercial Bank of Ceylon PLC,
"Commercial House",
No. 21, Sir Razik Fareed Mawatha,
P.O. Box: 856, Colombo 01, Sri Lanka.
Telephone: +94 11 248 6550
Email: email@combank.net

Minimise waste by informing the Commercial Bank Company Secretary to update the mailing list if you are receiving more than one copy of the Annual Report of the Bank.


## This Integrated Annual Report is GHG-neutral

Produced by Smart Media (Pvt) Limited, a GHG-neutral company that reduces and offsets its direct and indirect greenhouse gas emissions through certified sources.

*Net-zero GHG since 2011*

www.gsarn.org
Global Standard Annual Report Number©
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www.SmartAnnualReport.com

www.carbonfund.org

www.combank.lk