

## 43. RISK MANAGEMENT

### 43.1 Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her areas of responsibility. The Bank is mainly exposed to;

1. Credit Risk
2. Liquidity risk
3. Market risk

Refer report on Risk Management in the Annual Report 2022, for additional information on each type of risk that the Bank is exposed to in providing banking and related activities.

### 43.2 Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. Risk Management Department (RMD) oversees the risks faced by the Bank in its internal operations and from external environment.

#### **The Board Integrated Risk Management Committee**

The Board Integrated Risk Management Committee (BIRMC), is a subcommittee of the Board, meets quarterly or more regularly as required to review and assess the Bank's overall risk and to focus on policy recommendations and strategies in an integrated manner.

#### **Assets and Liabilities Committee**

The Bank's Assets and Liabilities Committee (ALCO) regularly reviews and monitors the maintenance of liquidity position of the Bank and the concentration of large deposits in order to avoid undue dependence on individual deposits. Bank monitors liquidity by way of various ratios as required by the Board approved Asset and Liability Management Policy.

#### **Risk Measurement and Reporting Systems**

The Bank's risks are measured using a method which reflects the expected loss likely to arise in normal circumstances. These are an estimate of the ultimate actual loss based on statistical models.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the BIRMC, and the head of each business unit.

The report includes aggregate credit exposure, Value at Risk (VaR), liquidity ratios and risk profile changes.

#### **Risk Concentration**

Concentrations arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

## Notes to the Financial Statements

**43. RISK MANAGEMENT (CONTD.)****43.3 Credit Risk**

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

**a) Impairment Assessment**

The approach used for the assessment of impairment is elaborated under Accounting Policies (Note No. 2.3.3)

**b) Credit related Commitment Risk**

The risk arising from transactions relating to contingent liabilities (Letters of Credit, Letters of Guarantees and undrawn amounts under approved authorisations) is included under this caption. Notwithstanding the non-funded nature of these products, the Bank is prone to a resultant financial loss due to the nature of such products, i.e. claim on guarantees, negotiation of LCs and non-utilisation of facilities.

**c) Collateral and Other Credit Enhancement**

An assessment of the credit risk of an individual at the time of issuing or enhancing a facility shall determine the amount and type of collateral that is required.

In the event of default, the Bank may, as a remedial measure, exercise its charge of the collateral obtained at the time of approval of credit facilities. Hence, the credit risk is eliminated to the extent of the net realisable value of such collateral, which has a weightage depending on nature of the collateral. Management monitors the market value of such collateral and requests additional collateral if required when reviewing the adequacy of the allowance for impairment.

**d) Credit Quality by Class of Financial Assets (Gross)**

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

Financial Assets as at 31 December 2022	Current/Past Due (Stage 1 and Stage 2)				Stage 3*	Total Rs.
	High Grade Rs.	Standard Grade Rs.	Sub-Standard Grade Rs.	Un-Rated Rs.	Rs.	
Cash and Cash Equivalents	22,603,294,374	-	-	-	-	22,603,294,374
Balance with Central Bank of Sri Lanka	5,085,679,063	-	-	-	-	5,085,679,063
Placements with Banks	24,570,292,448	-	-	-	-	24,570,292,448
Placements with Licensed Finance Companies	77,154	-	-	-	-	77,154
Derivative Financial Assets	70,733,336	-	-	-	-	70,733,336
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	11,058,000	48,503,097	-	-	-	59,561,097
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	60,516,697,331	23,400,416,704	-	-	3,188,674,257	87,105,788,292
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	329,511,996	-	2,993,000	-	332,504,996
Other Assets - Financial	676,564	-	-	2,322,889,149	-	2,323,565,713
<b>Total</b>	<b>112,858,508,270</b>	<b>23,778,431,797</b>	<b>-</b>	<b>2,325,882,149</b>	<b>3,188,674,257</b>	<b>142,151,496,473</b>

Financial Assets as at 31 December 2021	Current/Past Due (Stage 1 and Stage 2)				Stage 3*	Total Rs.
	High Grade Rs.	Standard Grade Rs.	Sub-Standard Grade Rs.	Un-Rated Rs.	Rs.	
Cash and Cash Equivalents	8,673,811,858	-	-	-	-	8,673,811,858
Balance with Central Bank of Sri Lanka	4,800,026,593	-	-	-	-	4,800,026,593
Placements with Banks	27,302,269,408	-	-	-	-	27,302,269,408
Placements with Licensed Finance Companies	73,341	-	-	-	-	73,341
Derivative Financial Assets	510,066,210	-	-	-	-	510,066,210
Financial Assets Measured at Fair Value through Profit or Loss	41,916,018	22,718,066	-	-	-	64,634,084
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	30,716,011,797	44,948,814,720	135,565,885	-	2,385,588,140	78,185,980,542
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	343,016,586	-	2,993,000	-	346,009,586
Other Assets - Financial	11,036,666	-	-	1,202,959,420	-	1,213,996,086
<b>Total</b>	<b>72,055,211,891</b>	<b>45,314,549,372</b>	<b>135,565,885</b>	<b>1,205,952,420</b>	<b>2,385,588,140</b>	<b>121,096,867,708</b>

*\*Age Analysis of Financing and Receivables to Other Customers - Stage 3*

As at 31 December	Stage 3*				Total Rs.
	Less than 30 days Rs.	30 to 59 days Rs.	60 to 89 days Rs.	More than 89 days Rs.	
Financing and Receivables to Other Customers - 31 December 2022	47,170,098	33,739,130	40,679,305	3,067,085,724	3,188,674,257
Financing and Receivables to Other Customers - 31 December 2021	1,205,481,850	46,324,730	42,184,984	1,091,596,576	2,385,588,140

## Notes to the Financial Statements

## 43. RISK MANAGEMENT (CONTD.)

## e) Analysis of Risk Concentration

Maximum exposure to credit risk is reviewed/monitored without taking account of any collateral and other credit enhancements. The concentration risk is monitored by industry. The following table shows the maximum exposure to credit risk for the components of the Statement of Financial Position, including sector.

## Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position.

Financial Assets as at 31 December 2022	Government Rs.	Financial Services Rs.	Agriculture, Forestry and Fishing Rs.	Manufacturing Rs.	Tourism Rs.
Cash and Cash Equivalents	-	22,603,294,374	-	-	-
Balance with Central Bank of Sri Lanka	5,085,679,063	-	-	-	-
Placements with Banks	-	24,570,292,448	-	-	-
Placements with Licensed Finance Companies	-	77,154	-	-	-
Derivative Financial Assets	-	70,733,336	-	-	-
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	-	-	-	26,503,345	-
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	-	421,169,719	10,385,556,681	9,440,824,510	19,471,053,339
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	332,504,996	-	-	-
Other Assets - Financial	1,362,958,561	609,294,315	-	-	-
<b>Total</b>	<b>6,448,637,624</b>	<b>48,607,366,342</b>	<b>10,385,556,681</b>	<b>9,467,327,855</b>	<b>19,471,053,339</b>

Financial Assets as at 31 December 2021	Government Rs.	Financial Services Rs.	Agriculture, Forestry and Fishing Rs.	Manufacturing Rs.	Tourism Rs.
Cash and Cash Equivalents	-	8,673,811,858	-	-	-
Balance with Central Bank of Sri Lanka	4,800,026,593	-	-	-	-
Placements with Banks	-	27,302,269,408	-	-	-
Placements with Licensed Finance Companies	-	73,341	-	-	-
Derivative Financial Assets	-	510,066,210	-	-	-
Financial Assets Measured at Fair Value through Profit or Loss	-	-	-	25,258,930	-
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	-	537,179,459	9,545,359,505	12,156,899,462	15,055,651,354
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	346,009,586	-	-	-
Other Assets - Financial	426,899,162	427,339,764	-	-	-
<b>Total</b>	<b>5,226,925,755</b>	<b>37,796,749,626</b>	<b>9,545,359,505</b>	<b>12,182,158,392</b>	<b>15,055,651,354</b>

Transportation and Storage Rs.	Construction Rs.	Wholesale and Retail Trade Rs.	Information Technology and Communication Services Rs.	Infrastructure Development Rs.	Other Services Rs.	Consumption Rs.	Total Rs.
-	-	-	-	-	-	-	22,603,294,374
-	-	-	-	-	-	-	5,085,679,063
-	-	-	-	-	-	-	24,570,292,448
-	-	-	-	-	-	-	77,154
-	-	-	-	-	-	-	70,733,336
-	-	10,380,082	13,768,810	8,908,860	-	-	59,561,097
2,021,625,999	1,124,142,282	2,529,693,215	15,043,105,583	1,408,203,227	1,397,955,054	23,862,458,683	87,105,788,292
-	-	-	-	-	-	-	332,504,996
-	-	-	-	-	-	351,312,837	2,323,565,713
2,021,625,999	1,124,142,282	2,540,073,297	15,056,874,393	1,417,112,087	1,397,955,054	24,213,771,520	142,151,496,473

  

Transportation and Storage Rs.	Construction Rs.	Wholesale and Retail Trade Rs.	Information Technology and Communication Services Rs.	Infrastructure Development Rs.	Other Services Rs.	Consumption Rs.	Total Rs.
-	-	-	-	-	-	-	8,673,811,858
-	-	-	-	-	-	-	4,800,026,593
-	-	-	-	-	-	-	27,302,269,408
-	-	-	-	-	-	-	73,341
-	-	-	-	-	-	-	510,066,210
-	-	12,312,544	17,656,474	9,406,136	-	-	64,634,084
1,065,600,010	1,035,159,849	586,138,066	10,700,855,546	2,231,147,449	1,982,317,150	23,289,672,692	78,185,980,542
-	-	-	-	-	-	-	346,009,586
-	-	-	-	-	-	359,757,160	1,213,996,086
1,065,600,010	1,035,159,849	598,450,610	10,718,512,020	2,240,553,585	1,982,317,150	23,649,429,852	121,096,867,708

## Notes to the Financial Statements

## 43. RISK MANAGEMENT (CONTD.)

## f) Analysis of Maximum Exposure to Credit risk and Collateral and Other Credit Enhancements

The following table shows the maximum exposure to credit risk by class of financial asset and the value of financial assets covered by collateral.

Financial Assets as at 31 December 2022	Maximum Exposure to Credit Risk Rs.	Fixed, Savings and Other deposits Rs.	Stocks in Trade Rs.
Balances with Banks	16,986,695,038	-	-
Placements with Banks	24,570,292,448	-	-
Placements with Licensed Finance Companies	77,154	-	-
Derivative Financial Assets	70,733,336	-	-
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	59,561,097	-	-
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	83,185,916,541	1,225,915,359	2,559,565,298
Financial Assets Measured at Fair Value through Other Comprehensive Income	332,504,996	-	-
Other Assets - Financial	2,323,565,713	-	-
<b>Total</b>	<b>127,529,346,323</b>	<b>1,225,915,359</b>	<b>2,559,565,298</b>

Financial Assets as at 31 December 2021	Maximum Exposure to Credit Risk Rs.	Fixed, Savings and Other deposits Rs.	Stocks in Trade Rs.
Balances with Banks	3,689,319,623	-	-
Placements with Banks	27,302,269,408	-	-
Placements with Licensed Finance Companies	73,341	-	-
Derivative Financial Assets	510,066,210	-	-
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	64,634,084	-	-
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	78,185,980,542	986,028,524	2,674,863,759
Financial Assets Measured at Fair Value through Other Comprehensive Income	346,009,586	-	-
Other Assets - Financial	1,213,996,086	-	-
<b>Total</b>	<b>111,312,348,880</b>	<b>986,028,524</b>	<b>2,674,863,759</b>

Immovable Property, Plant and Equipments Rs.	Motor Vehicles Rs.	Gold Rs.	Shares & Other Rs.	Net Exposure Rs.
-	-	-	-	16,986,695,038
-	-	-	-	24,570,292,448
-	-	-	-	77,154
-	-	-	-	70,733,336
-	-	-	-	59,561,097
44,609,120,628	5,852,162,404	12,800,729,467	972,020,442	15,166,402,943
				332,504,996
				2,323,565,713
44,609,120,628	5,852,162,404	12,800,729,467	972,020,442	59,509,832,725

Immovable Property, Plant and Equipments Rs.	Motor Vehicles Rs.	Gold Rs.	Shares & Other Rs.	Net Exposure Rs.
-	-	-	-	3,689,319,623
-	-	-	-	27,302,269,408
-	-	-	-	73,341
-	-	-	-	510,066,210
-	-	-	-	64,634,084
45,914,899,236	6,751,162,134	8,057,081,387	574,733,390	13,227,212,112
				346,009,586
				1,213,996,086
45,914,899,236	6,751,162,134	8,057,081,387	574,733,390	46,353,580,450

## Notes to the Financial Statements

### 43. RISK MANAGEMENT (CONTD.)

#### 43.4 Liquidity Risk and Funding Management

Liquidity risk implies the potential for loss to the Bank due to inability to meet its obligation or to fund the increase in assets as they fall due without incurring high cost.

Internal control processes and contingency plans for managing liquidity risk have been developed by the Bank under the Asset and Liability Management Policy of the Bank. This incorporates an assessment of expected cash flows and the availability of liquid funds which could be used if required.

As required by the Provisions of Section 93 of the Monetary Law Act, a cash balance is required to be maintained with Central Bank of Sri Lanka. As at 31 December 2022, the minimum cash reserve requirement was 4.0% (2021 - 4.0%) of the Rupee liabilities of the Domestic Banking Unit. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit.

The Bank monitors the mix of deposits closely and concentrates on mobilising zero or low cost deposits such as current accounts and savings accounts as a source of major funding.

Liquid assets are defined for the purposes of the liquidity ratio which are mainly Cash and Cash equivalents and Placements with Banks. Adequate liquid assets are maintained based on the Bank's business model adopted and ensure the Statutory Liquid Asset Ratio is maintained as per regulatory requirements.

#### a) Liquidity Ratios

As at 31 December	2022	2021
Financing and Receivables to Other Customers to Due to Other Customers Ratio (Net)	73.91%	78.85%
Statutory Liquid Assets Ratio - Consolidated	28.26%	N/A

**b) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities**

The table below summarises the maturity profile of the undiscounted cash flows (Gross) of the Bank's Financial Assets and Financial Liabilities as at the end of the reporting period.

Statement of Financial Position as at 31 December 2022	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<b>Financial Assets</b>						
Cash and Cash Equivalents	22,603,294,374	-	-	-	-	22,603,294,374
Balance with Central Bank of Sri Lanka	5,085,679,063	-	-	-	-	5,085,679,063
Placements with Banks	10,202,904,092	5,117,388,356	9,250,000,000	-	-	24,570,292,448
Placements with Licensed Finance Companies	77,154	-	-	-	-	77,154
Derivative Financial Assets	56,208,335	14,525,001	-	-	-	70,733,336
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	59,561,097	-	-	-	-	59,561,097
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	35,443,661,899	34,976,351,521	17,930,246,037	8,566,474,325	7,380,823,243	104,297,557,025
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	-	-	-	332,504,996	332,504,996
Other Assets - Financial	1,336,908,929	906,461,154	35,195,630	45,000,000	-	2,323,565,713
<b>Total Undiscounted Financial Assets</b>	<b>74,788,294,943</b>	<b>41,014,726,032</b>	<b>27,215,441,667</b>	<b>8,611,474,325</b>	<b>7,713,328,239</b>	<b>159,343,265,206</b>
<b>Financial Liabilities</b>						
Due to Banks	7,445,353,076	4,411,369,859	-	-	-	11,856,722,935
Derivative Financial Liabilities	20,880,000	-	-	-	-	20,880,000
Financial Liabilities at Amortised Cost - Due to Depositors	64,869,695,083	44,006,121,333	895,727,477	879,040,534	1,895,432,802	112,546,017,229
Other Liabilities - Financial	1,997,769,830	11,449,796	32,747,806	-	-	2,041,967,432
<b>Total Undiscounted Financial Liabilities</b>	<b>74,333,697,990</b>	<b>48,428,940,988</b>	<b>928,475,283</b>	<b>879,040,533</b>	<b>1,895,432,802</b>	<b>126,465,587,596</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>454,596,954</b>	<b>(7,414,214,957)</b>	<b>26,286,966,384</b>	<b>7,732,433,792</b>	<b>5,817,895,438</b>	<b>32,877,677,610</b>

## Notes to the Financial Statements

## 43. RISK MANAGEMENT (CONTD.)

## 43.4 Liquidity Risk and Funding Management (Contd.)

## b) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities(Contd.)

Statement of Financial Position as at 31 December 2021	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
<b>Financial Assets</b>						
Cash and Cash Equivalents	8,673,811,858	-	-	-	-	8,673,811,858
Balance with Central Bank of Sri Lanka	4,800,026,593	-	-	-	-	4,800,026,593
Placements with Banks	160,010	18,052,109,398	6,750,000,000	2,500,000,000	-	27,302,269,408
Placements with Licensed Finance Companies	73,341	-	-	-	-	73,341
Derivative Financial Assets	11,481,665	498,584,545	-	-	-	510,066,210
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	64,634,084	-	-	-	-	64,634,084
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	50,158,700,056	15,605,889,467	18,316,779,217	10,333,292,040	8,412,199,985	102,826,860,765
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	-	-	-	346,009,586	346,009,586
Other Assets - Financial	713,317,488	417,253,237	34,215,630	49,209,731	-	1,213,996,086
<b>Total Undiscounted Financial Assets</b>	<b>64,422,205,095</b>	<b>34,573,836,648</b>	<b>25,100,994,847</b>	<b>12,882,501,771</b>	<b>8,758,209,571</b>	<b>145,737,747,930</b>
<b>Financial Liabilities</b>						
Due to Banks	1,125,040,978	7,884,945,205	-	-	-	9,009,986,183
Derivative Financial Liabilities	55,104,807	728,094,975	-	-	-	783,199,782
Financial Liabilities at Amortised Cost - Due to Depositors	10,250,185,232	53,210,314,332	16,172,016,870	10,604,929,209	5,920,330,473	96,157,776,116
Other Liabilities - Financial	1,665,454,096	10,250,092	20,422,792	-	-	1,696,126,980
<b>Total Undiscounted Financial Liabilities</b>	<b>13,095,785,113</b>	<b>61,833,604,604</b>	<b>16,192,439,662</b>	<b>10,604,929,209</b>	<b>5,920,330,473</b>	<b>107,647,089,061</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>51,326,419,982</b>	<b>(27,259,767,956)</b>	<b>8,908,555,184</b>	<b>2,277,572,562</b>	<b>2,837,879,096</b>	<b>38,090,658,869</b>

**c) Contractual Maturities of Commitments & Contingencies**

As at 31 December	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Acceptances	1,813,249,792	1,596,987,127	-	-	-	3,410,236,919
Letters of Credit	488,984,123	6,565,225	-	-	-	495,549,348
Guarantees, Bonds	2,677,208,621	2,055,682,330	155,575,807	157,500	-	4,888,624,258
Outward Clearing Receivable	902,610,532	-	-	-	-	902,610,532
Promissory Forward Sales	4,693,278,332	-	-	-	-	4,693,278,332
Promissory Forward Purchases	6,765,635,000	2,377,115,000	-	-	-	9,142,750,000
Commitments for Unutilised Facilities	3,391,471,887	5,087,207,831	-	-	-	8,478,679,718
Bills for Collection and Other	2,177,202,466	-	-	-	-	2,177,202,466
<b>Total</b>	<b>22,909,640,753</b>	<b>11,123,557,513</b>	<b>155,575,807</b>	<b>157,500</b>	<b>-</b>	<b>34,188,931,573</b>

As at 31 December	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Acceptances	1,630,404,851	1,115,504,624	-	-	-	2,745,909,475
Letters of Credit	2,696,717,406	124,999,555	-	-	-	2,821,716,961
Guarantees, Bonds	1,320,922,340	1,918,835,969	139,126,155	157,500	-	3,379,041,964
Outward Clearing Receivable	618,210,754	-	-	-	-	618,210,754
Promissory Forward Sales	11,681,544,048	6,960,000,000	-	-	-	18,641,544,048
Promissory Forward Purchases	18,042,293,995	5,370,000,000	-	-	-	23,412,293,995
Commitments for Unutilised Facilities	5,823,362,958	8,735,044,437	-	-	-	14,558,407,395
Bills for Collection and Other	1,640,159,242	-	-	-	-	1,640,159,242
<b>Total</b>	<b>43,453,615,594</b>	<b>24,224,384,585</b>	<b>139,126,155</b>	<b>157,500</b>	<b>-</b>	<b>67,817,283,834</b>

**43.5 Market Risk**

Market Risk denotes the risk of losses arising out of balance sheet positions due to changes in market prices. Market risk mainly arises from activities undertaken by the Bank's treasury and foreign exchange, equity, commodity and money market portfolios, which mainly contribute towards market risk of the Bank. A Board approved comprehensive limit structure has been adopted by the Bank to mitigate and monitor the market risk of the Bank.

**a) Rate Risk**

The rate risk arises due to changes in value of financial instruments arising due to changes in market rates. The Bank is exposed to this risk due to the mismatches in maturities of assets and liabilities that mature or are re-priced during a specified time period. In order to manage and mitigate rate risk, the Bank's ALCO reviews the re-pricing of assets and liabilities at ALCO meetings held regularly. Bank's rate risk is limited due to the model adopted where all of its Due to Depositors (customer deposits) have been accepted on Profit and Loss sharing basis.

## Notes to the Financial Statements

## 43. RISK MANAGEMENT (CONTD.)

## 43.5 Market Risk (Contd.)

Rate Sensitive Assets and Liabilities Maturity Gaps (Contractual Basis) as at 31 December 2022	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Non-Rate Bearing Rs.	Total Rs.
Cash and Cash Equivalents	-	-	-	-	-	22,603,294,374	22,603,294,374
Balance with Central Bank of Sri Lanka	-	-	-	-	-	5,085,679,063	5,085,679,063
Placements with Banks	10,202,904,092	5,117,388,356	9,250,000,000	-	-	-	24,570,292,448
Placements with Licensed Finance Companies	77,154	-	-	-	-	-	77,154
Derivative Financial Assets	-	-	-	-	-	70,733,336	70,733,336
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	-	-	-	-	-	59,561,097	59,561,097
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	28,664,249,096	29,765,212,353	12,946,377,274	6,260,794,328	5,549,283,490	-	83,185,916,541
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	-	-	-	-	332,504,996	332,504,996
Other Assets - Financial	-	-	-	-	-	2,323,565,713	2,323,565,713
<b>Total Assets</b>	<b>38,867,230,342</b>	<b>34,882,600,709</b>	<b>22,196,377,274</b>	<b>6,260,794,328</b>	<b>5,549,283,490</b>	<b>30,475,338,579</b>	<b>138,231,624,722</b>
Due to Banks	7,445,353,076	4,411,369,859	-	-	-	-	11,856,722,935
Derivative Financial Liabilities	-	-	-	-	-	20,880,000	20,880,000
Financial Liabilities at Amortised Cost - Due to Depositors	56,610,658,507	44,006,121,333	895,727,477	879,040,534	1,895,432,802	8,259,036,576	112,546,017,229
Other Liabilities - Financial	-	-	-	-	-	2,041,967,432	2,041,967,432
<b>Total Liabilities</b>	<b>64,056,011,583</b>	<b>48,417,491,192</b>	<b>895,727,477</b>	<b>879,040,534</b>	<b>1,895,432,802</b>	<b>10,321,884,008</b>	<b>126,465,587,596</b>
<b>Rate Sensitivity Gap</b>	<b>(25,188,781,241)</b>	<b>(13,534,890,484)</b>	<b>21,300,649,798</b>	<b>5,381,753,794</b>	<b>3,653,850,688</b>	<b>20,153,454,571</b>	

Rate Sensitive Assets and Liabilities Maturity Gaps (Contractual Basis) as at 31.12.2021	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Non Rate Bearing Rs.	Total Rs.
Cash and Cash Equivalents	-	-	-	-	-	8,673,811,858	8,673,811,858
Balance with Central Bank of Sri Lanka	-	-	-	-	-	4,800,026,593	4,800,026,593
Placements with Banks	160,010	18,052,109,398	6,750,000,000	2,500,000,000	-	-	27,302,269,408
Placements with Licensed Finance Companies	73,341	-	-	-	-	-	73,341
Derivative Financial Assets	-	-	-	-	-	510,066,210	510,066,210
Financial Assets Recognised through Profit or Loss - Measured at Fair Value	-	-	-	-	-	64,634,084	64,634,084
Financial Assets at Amortised Cost - Financing and Receivables to Other Customers	13,287,689,818	35,191,272,555	14,687,017,589	7,251,949,557	5,398,467,804	-	75,816,397,323
Financial Assets Measured at Fair Value through Other Comprehensive Income	-	-	-	-	-	346,009,586	346,009,586
Other Assets - Financial	-	-	-	-	-	1,213,996,086	1,213,996,086
<b>Total Assets</b>	<b>13,287,923,169</b>	<b>53,243,381,954</b>	<b>21,437,017,589</b>	<b>9,751,949,557</b>	<b>5,398,467,804</b>	<b>15,608,544,417</b>	<b>118,727,284,490</b>
Due to Banks	1,125,040,978	7,884,945,205	-	-	-	-	9,009,986,183
Derivative Financial Liabilities	-	-	-	-	-	783,199,782	783,199,782
Financial Liabilities at Amortised Cost - Due to Depositors	3,714,156,730	53,210,314,332	16,172,016,870	10,604,929,209	5,920,330,473	6,536,028,502	96,157,776,116
Other Liabilities - Financial	-	-	-	-	-	1,696,126,980	1,696,126,980
<b>Total Liabilities</b>	<b>4,839,197,708</b>	<b>61,095,259,537</b>	<b>16,172,016,870</b>	<b>10,604,929,209</b>	<b>5,920,330,473</b>	<b>9,015,355,264</b>	<b>107,647,089,061</b>
<b>Rate Sensitivity Gap</b>	<b>8,448,725,471</b>	<b>(7,851,877,585)</b>	<b>5,265,000,720</b>	<b>(852,979,652)</b>	<b>(521,862,670)</b>	<b>6,592,842,691</b>	

#### 43.6 Foreign Exchange Risk

Foreign Exchange risk which arises due to the changes in foreign exchange rates is managed by the Bank by setting and monitoring dealer, currency, counterparty and settlement limits for On and Off Balance Sheet instruments.

Bank's activities in the Trade Finance business results in Off Balance Sheet financial instruments. In addition, the Bank engages in interbank promissory forward foreign exchange transactions to cover the positions created due to customer transactions. Such transactions are carried out on a matched basis to manage the cash flows of currencies.

The currency risk is managed and monitored against the regulatory limits approved for the Bank by the Central Bank of Sri Lanka. The foreign exchange exposures in individual currencies are managed according to the limits approved by the Board of Directors.

## Notes to the Financial Statements

## 43. RISK MANAGEMENT (CONTD.)

## 43.7 Currency Risk

Currency risk arises as a result of price fluctuations in assets due to change in exchange rates. The Board of Directors has set limits for currency wise exposures. The currency exposures are monitored on a daily basis as required by the Risk Management policy of the Bank.

The table below indicates the exposures in currencies the Bank carried as at 31.12.2022 and the effect of the gains/losses if the market rates appreciate/depreciate by 5%. The calculation indicates a reasonably practical movement of currency rates against Sri Lankan Rupees.

If market rates appreciate or depreciate by 5% the effect of the same to the exchange gain/(loss) would be:

Currency	2022		2021	
	5% Appreciation Rs.	5% Depreciation Rs.	5% Appreciation Rs.	5% Depreciation Rs.
Australian Dollars	931,879	(931,879)	(13,610)	13,610
Great Britain Pounds	1,323,831	(1,323,831)	(235,700)	235,700
Japanese Yen	369,323	(369,323)	81,816	(81,816)
United States Dollars	(171,582)	171,582	(2,185)	2,185
Other Currencies	7,794,427	(7,794,427)	2,738,648	(2,738,648)
<b>Total</b>	<b>10,247,878</b>	<b>(10,247,878)</b>	<b>2,568,969</b>	<b>(2,568,969)</b>

## 43.8 Equity Price Risk

**Equity price risk arises due to changes in individual equity prices.**

The Board of Directors of the Bank has laid down sector, portfolio and loss limits to control and mitigate the risks of the equity portfolio. The Bank also adheres to the guidelines issued by Central Bank of Sri Lanka regarding the exposure to a single entity and the total exposure limit for the equity portfolio. The performance of the equity portfolio is monitored by the Equity Investment Committee (EIC), ALCO and the Board of Directors. The Bank engages in transactions only in white-listed equities.

Daily Mark-to-Market of portfolios are carried out based on the weighted average closing prices of the Colombo Stock Exchange.