RELATIONSHIPS TRUST DEVELOPMENT

ANNUAL REPORT 2018

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பிரதேச அபிவிருத்தி வங்கி
RDB Regional Development Bank

Vision

Nurturing entrepreneurs who will propel our country's socio-economic prosperity

Mission

We provide financial and advisory services through a dedicated team of professionals aims to productively uplift the socio-economic prosperity of regions

Relationships...Trust...Development

Our business model is firmly grounded with the rural masses and is built upon the pillars of relationships and trust. We concentrate on bringing optimal development opportunities to women entrepreneurs and the micro and SME sectors whilst also supporting the national effort. Forging lasting relationships and building unshakeable trust helps RDB offer relevant and sustainable economic development across the country.

Regional Development Bank...

The beginning of Regional Development Bank (RDB) goes back to the year 1985, when district level banks under the category of Regional Rural Development Banks were established.

In 1997, seventeen such Regional Rural Development Banks were merged into six Provincial Level Banks, namely Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks.

These six provincial banks were further merged in May 2010, as a national level development bank and named the Pradeshiya Sanwardana Bank (Regional Development Bank or RDB). The RDB was established under the Pradeshiya Sanwardana Bank Act No. 41 of 2008 as a fully State-owned national level bank with the long-term objective of improving the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

Originally based on the 'barefoot banking concept', the Bank strives to provide innovative, simple and effective financial instruments (mainly deposit mobilisation and lending) to those at the middle and bottom of the income pyramid. The Bank is keen on empowering its customers in the micro, small and medium-scale industries, women entrepreneurs as well as those in the agriculture, livestock, fisheries and other small industries, all of which in turn would contribute towards the country's economic development. The Bank has also taken steps to inculcate the savings habit amongst the rural people providing higher returns on savings and fixed deposits, while also encouraging school children and minors to save.

Today, with over six million loyal account holders complemented by 273 branches and empowered by over 2,340 professional permanent staff members, the RDB is well equipped to implement its vision of nurturing entrepreneurs who will propel our country's socio-economic prosperity.

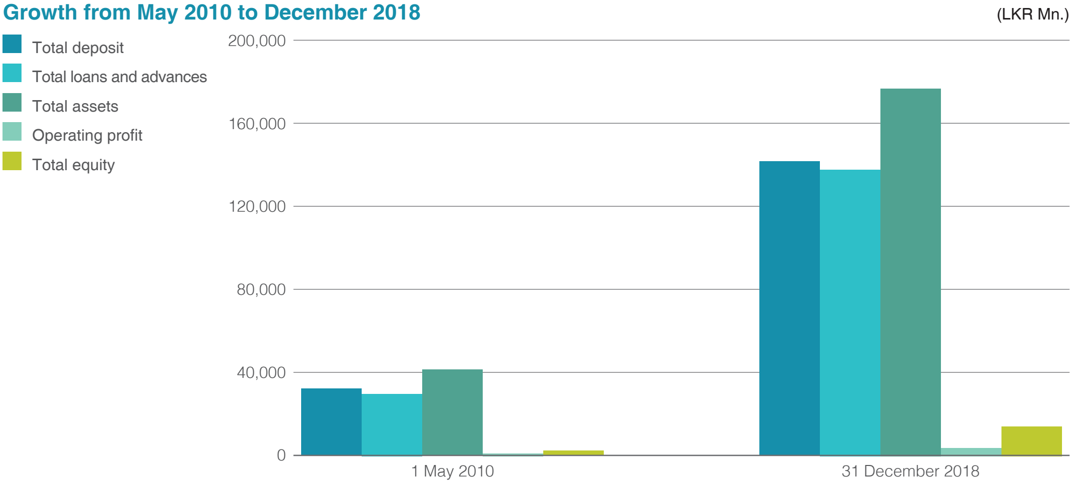
Contents

Success story after merging six provincial development banks as one national level Regional Development Bank

"RDB crossed 175 Bn. total assets within eight + years after merging in 2010"

Operating profit growth from **LKR 371 Mn. to LKR 3,606 Mn.**	**872 (%)**
Total equity growth from **LKR 3 Bn. to LKR 15 Bn.**	**400 (%)**
Total assets growth from **LKR 41 Bn. to LKR 177 Bn.**	**332 (%)**
Total deposit growth from **LKR 32 Bn. to LKR 142 Bn.**	**344 (%)**
Total loans and advances growth from **LKR 30 Bn. to LKR 138 Bn.**	**360 (%)**

Growth from May 2010 to December 2018



Results achieved by Provincial Development Banks (i.e., Rajarata, Ruhuna, Wayamba, Kandurata, Uva, and Sabaragamuwa Development Banks) during the twenty-four years period from 1985 to 2009, have drastically improved during the eight years period (2010-2018) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

From May 2010 to December 2018

Total deposits of RDB has increased by LKR 109 Bn. from LKR 32,350 Mn. to LKR 141,560 Mn.

Total loans and advances of RDB has increased by LKR 107 Bn. from LKR 30,311 Mn. to LKR 137,770 Mn.

Total assets of RDB has increased by LKR 136 Bn. from LKR 41,018 Mn. to LKR 176,937 Mn.

History of RDB

The beginnings of Regional Development Bank (RDB) can be traced to 1985 when district level banks under the category of Regional Rural Development Banks were established in terms of the Regional Rural Development Bank Act No. 15 of 1985. Subsequently in 1997, under the Regional Development Bank Act No. 06 of 1997, seventeen Regional Rural Development Banks were amalgamated into six provincial development banks; Rajarata, Ruhuna, Wayamba, Kandurata, Uva, and Sabaragamuwa Development Banks. With the introduction of the Pradeshiya Sanwardana Bank Act No. 41 of 2008 these six banks were merged into one national entity as Pradeshiya Sanwardana Bank (Regional Development Bank) on 1 May 2010. In 2015, RDB celebrated their 30th Anniversary. Being the RDB at national level Government-owned development bank, the objectives of the Bank shall be to facilitate the overall regional economic development of Sri Lanka by promoting the development activities such as agriculture, industry, trade, commerce, livestock, fisheries, and empowerment of women mainly by granting financial assistance to Micro Financial Institutions and small and medium scale enterprises.

Financial highlights

- As a financial institution dedicated to development of finance, RDB continues to play a vital role in the uplifting of social and economic development activities in the country. The Bank has been in the forefront of almost all the development programmes in the island taking a significant role as a financier. Our key asset is our customer base of over six million that spread throughout the country, including the North and East. Development of the country and its people is the main focus of the Bank. Hence, the Bank is committed to empowering them and thereby developing the nation through its 273 branches in the island-wide network.
- The total income of the Bank has increased by 18%, compared to the previous year. In the year 2018, operating profit increased to LKR 3,606 Mn., which is 9% over the operating profit of LKR 3,307 Mn., recorded in 2017. Return on Assets (ROA) before tax has been recorded as 2.08% that stood at 2.2% in 2017.

Support services to our customers

- Western Union with NDB – Money transfers through the Western Union is an easier and speedy way to transfer funds with total security from any foreign destination to our country and customers are able to collect them through all branches of RDB which are widely located in rural and semi-urban areas.
- Lanka Money Transfer (LMT) with DFCC – Lanka Money Transfer remits money directly and instantly to customer bank accounts with no downtime. Lanka Money Transfer is with a wide international network consisting of over 275 locations and this service is available at 273 RDB branches islandwide.
- Utility Bills Payment Service with Sri Lanka Telecom, Ceylon Electricity Board (CEB), National Water Supply and Drainage Board (NWSDB).
- RDB ATM and LankaPay ATM Facility – Now our customers are able to withdraw their money at any one of over 3,800 ATMs islandwide. Approximately 150,000 ATM cards have been issued to customers as of now.
- Common Electronic Fund Transfer (CEFT) System – Inter-bank fund transfer facility is available for our customers.
- Cash Deposit Machines (CDM) – Available at selected branches.

	2018 LKR '000	2017 LKR '000	Change %
Operating results for the year			
Gross income	26,070,611	22,016,072	18
Operating profit before VAT	3,606,330	3,306,995	9
Taxation	2,532,744	2,023,065	25
Profit after tax	1,073,586	1,283,930	-16
Profit attributable to shareholders	993,559	1,113,803	-11
Assets and liabilities			
Customer deposits	141,559,974	139,827,365	1
Loans and receivables	137,769,683	130,324,846	6
Total assets	176,937,319	169,259,202	5
Total liabilities	162,227,205	159,646,453	2
Shareholders' fund	14,710,115	9,612,749	53
Profitability			
Return on assets (Operating profits) %	2.08	2.20	
Return on equity %	10.70	16.45	
Non-performing loan ratio %	5.40	3.27	

	2018	Minimum Requirement %	2017	Minimum Requirement %
Regulatory ratio				
Capital adequacy ratio (As per BASEL III)				
Common equity Tier 1 capital ratio	11.58	7.00	8.73	6.375
Total Tier 1 capital ratio	11.58	8.50	8.73	7.875
Total capital ratio	13.61	12.50	12.57	11.875
Statutory liquid assets ratio	24.27	20.00	26.27	20.00

Gross income

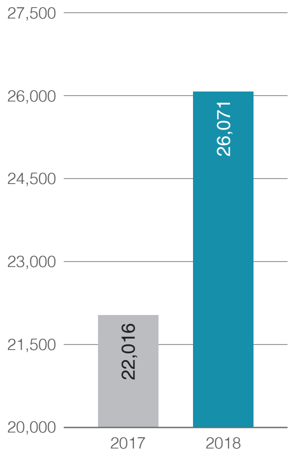
(LKR Mn.)

2018

18%

2017

40%



Customer deposits

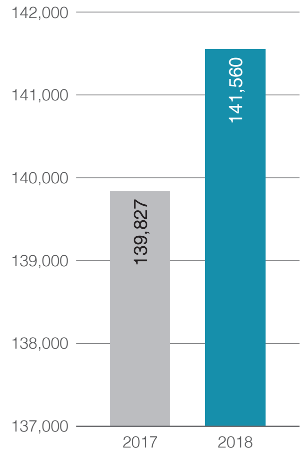
(LKR Mn.)

2018

1%

2017

31%



Operating profit before tax

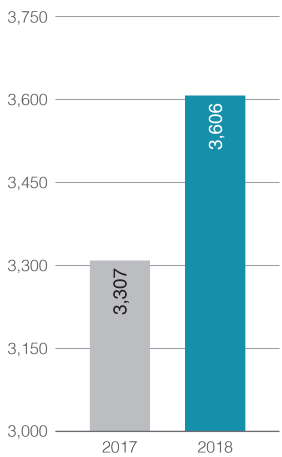
(LKR Mn.)

2018

9%

2017

55%



Loans and receivables

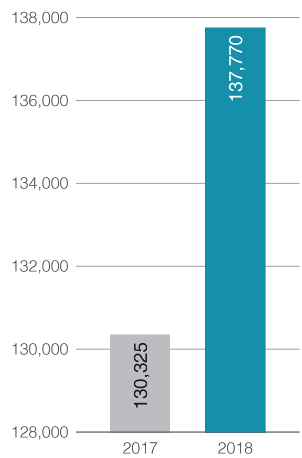
(LKR Mn.)

2018

6%

2017

21%



Profit after tax

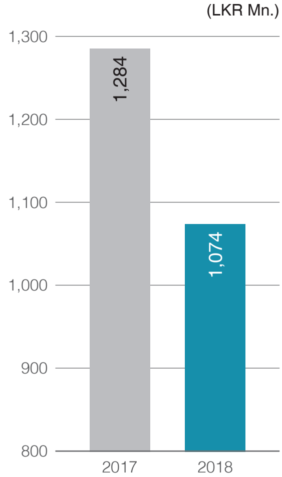
(LKR Mn.)

2018

(16%)

2017

100%



Shareholders' equity

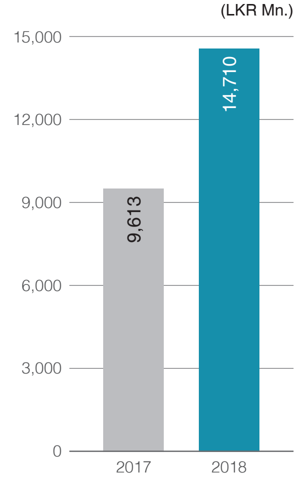
(LKR Mn.)

2018

53%

2017

60%



The Bank continued on the path of strengthening the rural economy, uplifting the middle and lower income groups and inculcating the savings among them. While doing so it also contributed to the Sri Lankan economy by increasing national savings.

Dear shareholder,

I am pleased to report to you on what has been a successful and eventful year for the Bank. Our operating profit increased by 9% from LKR 3.3 Bn. to LKR 3.6 Bn.; our assets recorded a growth of 5% from LKR 169.3 Bn. to LKR 176.9 Bn. However, due to changes in taxation policies the profit after taxes declined slightly compared with the previous year. Further, considerably higher impairment charge under SLFRS 9 also contributed to this decline.

In the year under review, the Bank took major initiatives to promote inorganic growth. The Bank acquired a 100% ownership of Lankaputhra Development Bank in accordance with the budget proposal of 2016. The purchase consideration was settled by the issue of new shares to the General Treasury. This was the main reason for a considerable increase in shareholders' equity by 53% from LKR 9.6 Bn. to LKR 14.7 Bn.

Another major step during the year was the negotiation of a loan of USD 50 Mn. from the Asian Development Bank (ADB) as a subordinated debt which will also strengthen the Tier II Capital of the Bank.

The subject agreement was signed in June 2019. The loan will be granted against a Government Guarantee and will be repayable after 12.75 years as a bullet payment.

A major challenge we had to face during the year was the substantial withdrawal of deposits by "*Samurdhi*" Societies, which previously accounted for a high percentage of deposits. However, we have overcome this by increasing our individual depositors, thereby reducing our over dependency on "*Samurdhi*" deposits.

The Bank vigorously pursued its main goal of strengthening the rural economy, and uplifting the middle and low-income groups, as it has been doing throughout its 30 years of existence. The fact that many of the rural population consider the Bank to be 'Our Bank' is a tribute to the effectiveness with which we have played our role and establishes our tagline of "Empowering Sri Lankans". RDB is an active participatory partner and one of the banks which provides highest number of loans under "Enterprise Sri Lanka" programme which is a main development strategy of the economy of Sri Lanka. The Bank is also inculcating the savings habit among the rural masses and thereby contributing to the Sri Lankan economy by increasing national savings.

We have always adhered to high standards of corporate governance and will continue to do so. We study the best practices in the industry and strive to keep on par with them while adopting them to suit the Bank's operating requirements.

Looking ahead

The loan and an additional technical grant of USD 1 Mn. from ADB will enable the recruitment of additional staff. I look forward to 2019 being a fruitful year when we further increase our lending to small rural entrepreneurs, especially women. The Technical Assistance Grant will be utilised for training of SME women entrepreneurs. We intend to facilitate upgrading their industries, educate them on regulatory requirements, and streamline the financial management of their projects.

The strengthening of the capital base of the Bank, and our role in driving the rural economy and the SME sector will ensure the Bank's continued sustainability. We envisage our future direction to be continuing to uplift the rural economy and the small and medium entrepreneurs while taking a regional focus.

In 2019 RDB wishes to continue granting of loans especially for the SME sector of the country while achieving other goals of the Bank. One of the key factors behind the success of RDB is our unique approach to needy people of the country through our island-wide network of 273 branches.

Acknowledgements

I wish to express my gratitude and appreciation to his Excellency the President Maithripala Sirisena, Hon. Prime Minister Ranil Wickramasinghe, and to the Hon. Minister of Public Enterprise Development Lakshman Kirella, for their guidance and support. I also wish to thank the Hon. Minister of Finance Mangala Samaraweera, the Hon. State Minister of Finance Eran Wickramaratne and the officials of the General Treasury for their direction and assistance.

My appreciation is extended to the Governor of the Central Bank, Director of Bank Supervision of the Central Bank of Sri Lanka and the officials for regulating and guiding us to achieve positive performance during the year.

I would like to thank my colleagues on the Board for their continued contribution and support which enabled me to carry out my duties as Chairman. I also wish to express my appreciation to Mr T A Ariyapala, the General Manager/CEO who retired from service on 31 January 2019, to Mr T Kuhan the present Acting General Manager/CEO, the Corporate Management and all the staff members in different levels for their tireless efforts towards achieving the goals of the Bank.

Lastly, my thanks go out to the millions of customers and other stakeholders for their confidence and trust in our Bank. Their long-standing support is our greatest asset and will propel the Regional Development Bank forward and upward in the years to come.

J T S P Kariyawasam
Chairman

General Manager/ Chief Executive Officer's review

During 2018, the Bank grew inorganically by acquiring the Lankaputhra Development Bank which led to an increase in Tier I capital adequacy exceeding legislative requirements. The Bank also negotiated a loan of USD 50 Mn. from the Asian Development Bank which will be mainly utilised for empowering women entrepreneurs.

As our name itself suggests, Regional Development Bank (RDB) is a bank which has been dedicated to servicing the rural hinterlands in Sri Lanka for over 30 years.

The Bank is the only fully Government owned dedicated development bank in the country today and has won the trust of the rural population, not just as a bank, but also as a friend in need providing financial support and inculcating savings habits among them. Hence, RDB has established its identity within the rural community as their bank. This has given us a competitive edge over other financial institutions which are focusing on the bottom of the income pyramid.

We continued our progressive journey during the year 2018, facing the challenges of unfavourable macroeconomic conditions. As in the past, the Bank continued to grow inorganically, and as per the budget proposals of 2016, acquired the Lankaputhra Development Bank (LDB) in December 2018. The merger was completed during the month of April 2019.

The acquisition of LDB has paved the way for the Bank to strengthen its Tier I capital adequacy, exceeding the stipulated benchmark of the Central Bank of Sri Lanka CBSL under Basel III. The negotiations with Asian Development Bank (ADB) for a loan of USD 50 Mn. as a subordinated debt to strengthen the Tier II capital were initiated in the year 2018. The negotiations were completed and agreements were signed in this regard in June 2019 which will further strengthen our capital position and create sufficient leeway for expanding business over the ensuing years.

The Bank has extended its reach leveraging the LankaPay network through over 3,800 ATMs across the island. RDB has also initiated a process to strengthen the staff by recruiting 320 junior level employees as Development Assistants in the year 2018, which was completed in 2019.

Being a state development bank, the Bank actively participated in the Enterprise Sri Lanka programme launched by the Government and granted a substantial amount of loans under this programme in 2018.

The Bank continued to focus on uplifting the livelihoods of our rural masses, especially through empowering women entrepreneurs, for which the proposed ADB loan of USD 50 Mn. will be mainly utilised. The technical grant of USD 1 Mn. will be used for the training of the rural entrepreneurs in their technical needs.

The Bank has made a YOY growth in the asset base, which increased from LKR 169.26 Bn. in 2017 to LKR 176.94 Bn. while having an NPA portfolio of LKR 7.26 Bn. The Bank also achieved a gross income of LKR 26.07 Bn. and an operating profit of LKR 3.61 Bn. for the year 2018. Furthermore, the Bank made a profit before tax of LKR 2.10 Bn. and a profit after tax of LKR 1.07 Bn. in year 2018.

These goals were reached through the implementation of strategic plans and enhancing product portfolios with the combined efforts of the RDB staff.

Over the years, the Bank was facing a concentration risk of holding substantial deposits of Samurdhi Societies where the dependency on a single depositor was evidenced. The substantial withdrawal of the Samurdhi deposits in 2018 motivated the Bank to increase the number of individual depositors and I am happy to report that we were finally able to maintain a balanced deposit portfolio by end 2018.

The bank commenced the process of upgrading and procuring new hardware such as computers and servers in 2018. The process is to be completed in the year 2019.

We foresee the year 2019 as a challenging one where profitability will be impacted due to deteriorating asset quality and the consequent impairment charges as well as rising effective tax burden, a scenario that the sector has been witnessing from the latter part of 2018. However, the Bank is equipped with the necessary additional work force and the capital buffer to face up to those challenges in 2019.

In conclusion, I express my sincere gratitude to our customers for their continued loyalty and patronage, our Chairman Mr Sujith Kariyawasam and the Board of Directors for their guidance and encouragement, and the entire staff of RDB including the former General Manager/CEO Mr T A Ariyapala for their support and commitment to achieve the Bank's goals in 2018.

My sincere appreciation also goes out to the officials of the Central Bank of Sri Lanka (CBSL), Ministry of Finance and other government institutions for their cooperation and support extended to RDB in the year 2018.

T Kuhan
Acting General Manager/CEO

5.
Management discussion and analysis

In a dynamic and challenging operating environment, we need to be proactive to ensure organisational success and sustainable value creation. This section highlights how we use the resources and expertise at our disposal to generate value for our stakeholders.

The Bank has been in the forefront of most development programmes in the Island, playing a vital role as a financier

As a financial institution, dedicated to Development Finance, RDB is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programmes in the Island, playing a vital role as a financier. RDB has now emerged as a unique financial institution for regional development in the island, serving the sectors of the economy, where most financial institutions are reluctant to actively participate in this sensitive and sophisticated arena. Our key asset is our customer base of over six million, spread throughout the country, including both North and East. Development of the country and its people are the main focus of the Bank. So, the Bank is committed in empowering them and thereby developing the Nation through its island-wide branch network of 273 branches.

Profitability

Total income of the Bank has increased by 18%, compared to the previous year. In the year 2018, operating profit increased to LKR 3,606 Mn., which is 9% over the operating profit of LKR 3,307 Mn., recorded in 2017. Return on Assets (ROA) before tax has been recorded as 2.08% that stood at 2.2% in 2017. Also, the Bank reached total assets of LKR 177 Bn. as at 31 December 2018 which recorded 5% growth over the previous year.

Performance against the budget

	Actual LKR '000	Budgeted LKR '000	Achievement %
Gross income	26,070,611	25,275,013	103
Operating profits	3,606,330	3,739,023	96
Profit after tax	1,073,586	1,039,621	103

RDB's quarterly financial performance

RDB's quarterly financial performance has improved during the year 2018.

	2018				2017
	31 December LKR '000	30 September LKR '000	30 June LKR '000	31 March LKR '000	31 December LKR '000
Net operating income	11,442,195	8,193,908	5,359,378	2,672,652	10,157,834
Profit before tax	3,606,330	2,223,463	1,558,242	828,415	3,306,995
Profit after tax	1,073,586	617,368	459,014	270,816	1,283,930
Loans and receivables	137,769,683	138,490,039	136,505,968	133,670,053	130,324,846
Customer deposits	141,559,974	141,277,294	138,092,116	139,889,222	139,827,365
Total assets	176,937,319	176,474,864	171,343,914	174,091,364	169,259,202
Shareholders' funds	14,710,115	10,230,116	10,071,762	9,883,564	9,612,749

Income

Total income of the Bank showed an year-on-year increase of 18% to LKR 26.1 Bn. from LKR 22 Bn. The major contributor to this was interest income which grew by 19% whilst fee and commission income which grew by 8% too contributed to total income.

Composition of total income

	LKR '000
Interest income	24,865,109
Fee and commission income	1,186,795
Other operating income	18,706
Total income	26,070,610

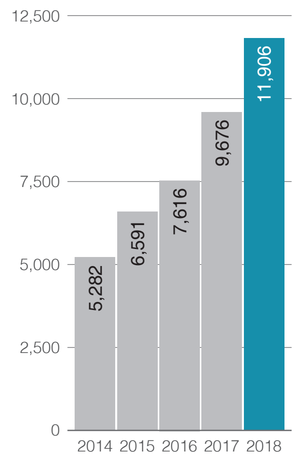
Net interest income (NII)

Net interest income grew significantly by 23% in the financial year 2018, as it increased from LKR 9,676 Mn. to LKR 11,906 Mn.

Net interest income – Growth (LKR Mn.)

2018
23%

2017
27%



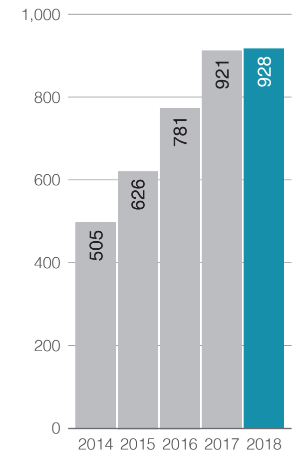
Net fee and commission income

A 1% growth was recorded during the year 2018. It reached LKR 928 Mn. in the year 2018 against LKR 921 Mn. recorded in the year 2017.

Net fee and commission income – Growth (LKR Mn.)

2018
1%

2017
18%



Taxation

	2018 LKR '000	2017 LKR '000	Change %
VAT on financial services	**1,158,678**	984,943	18
Nation building tax	**154,490**	131,326	18
Income tax	**1,029,496**	906,796	14
Debt repayment levy	**190,080**	–	–
Total tax expense	2,532,744	2,023,065	25

During the year 2018, the Bank has incurred value added tax on financial services and nation building tax, amounting to LKR 1,313 Mn. and income tax amounting to LKR 1,029 Mn. A total of LKR 2,533 Mn. has been incurred during the year as taxes.

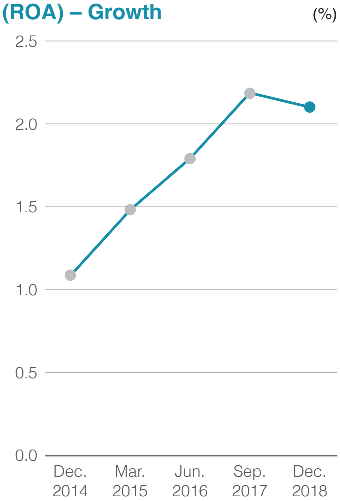
Return on assets (ROA)

The Bank recorded ROA (operating profits) of 2.1% for the year 2018 as against 2.2% recorded for the year 2017.

Return on assets (ROA) – Growth (%)

2018
(5%)

2017
23%



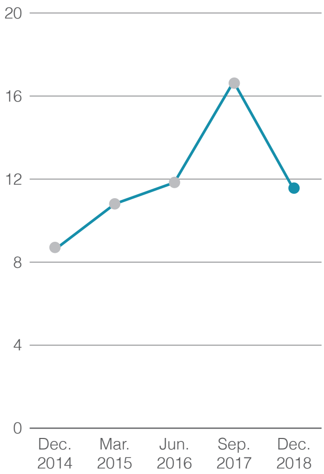
Return on equity (ROE)

New share issues made to maintain the capital requirements under the BASEL III has resulted in significant decrease in ROE to 10.7% compared to the previous year.

Return on equity (ROE) – Growth (%)

2018
(35%)

2017
49%



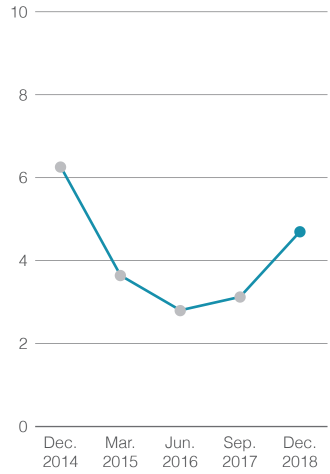
Assets quality

Non-performing loan ratio (NPL) of the Bank increased up to 5.40% as at 31 December 2018 which was at 3.27% at the previous year end. External unfavourable factors caused an unpredicted increase in the NPL during the year.

Non-performing loans (NPL) ratio (%)

2018
5.40%

2017
3.27%



Total assets

The Bank recorded a growth of 5% in total assets as at the end of the year 2018, over the corresponding year. Accordingly, the total assets base crossed the LKR 175 Bn. mark to reach LKR 177 Bn.

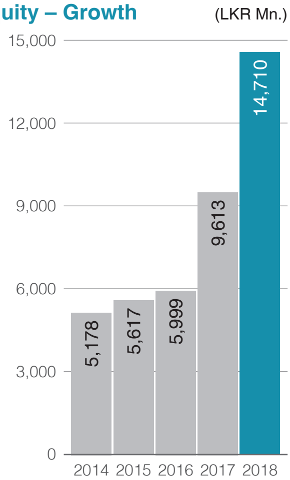
Total shareholders' equity

Total shareholders' equity of the Bank arrived to LKR 14,710 Mn. with significant operating results and new capital injection of LKR 4,176 Mn. by General Treasury at the end of the year 2018.

Total shareholders' equity – Growth (LKR Mn.)

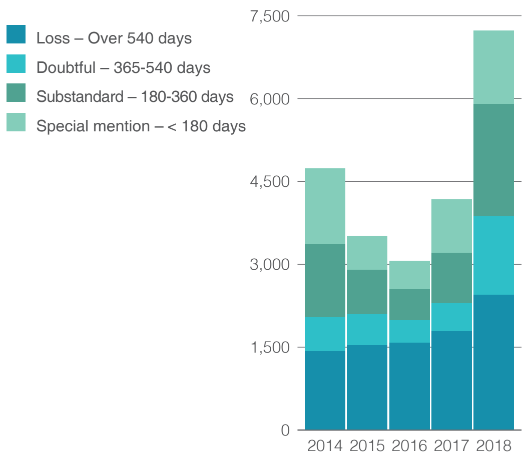
2018
53%

2017
60%



Given below is an analysis of the Bank's non-performing loans, based on the credit risk classification of the Central Bank of Sri Lanka:

Non-performing loans, based on the credit risk classification of the Central Bank of Sri Lanka (LKR Mn.)



Liquidity

	2018 %	2017 %
Statutory liquid assets ratio (SLAR)	24.27	26.27

The Bank has consistently maintained its liquidity levels well above the regulatory requirements. Unexpected outflow of some institutional deposits during the 3rd and 4th quarter of 2018 has resulted in a lower SLAR compared to the previous year.

Credit and operations

The Bank is expected to make a significant contribution towards the upliftment of the nation as a development bank, which has a national presence. Credit is the most important function, with this instrument being used by the Bank in meeting this objective. Credit can be used to stimulate important segments such as agriculture, small industries, fisheries, animal husbandry, housing and service sectors of the economy, thereby enhancing the contributions made by these sectors towards national income. One of the noteworthy features of the Bank is its strong presence in rural areas, which has been continuing from the inception of Regional Rural Development Banks since 1986.

The Bank therefore, has executed many strategies to meet the given objectives in all banking activities, including lending operations. Terms of loan facilities were designed to suit the needy sectors by offering concessionary interest rates, conveniently crafted repayment plans with comfortable grace periods on soft security requirements. In addition, the Bank provided credit plus facilities, such as entrepreneurship development, training, advisory support on management, and marketing. Credit plus services help to reduce the risk of lending and thereby reduce the dependency on securities for lending.

Currently, the Bank is operating an assortment of different loan schemes, designed for various needs of all customer categories. Funds for operation of most of the development loan programmes are received through refinancing schemes implemented by multilateral organisations such as World Bank, Asian Development Bank, European Investment Bank and Central Bank of Sri Lanka (CBSL). Accordingly, during the year under review, the Bank continued to act as a participating credit institution (PCI) under 15 such refinancing programmes of which, six are from the CBSL. The Bank strongly represented itself by participating in almost all refinance schemes operated by the CBSL.

During the year under review, the Bank was in a position to further expand the novel instrument for lending in the name of “warehouse receipt financing”. This was the first time in Sri Lanka, such an innovative instrument was used for financing by a bank to help farmer communities. This instrument will facilitate farmers to obtain temporary funds by pledging stocks during harvesting periods, instead of selling their produce at low market prices. The Bank has already commenced the management of six warehousing projects at Upuldeniya in the Anuradhapura District, at Buttala in the Monaragala District, at Murunkan in the Mannar District and newly commenced at Polonnaruwa, Embilipitiya and Kilinochchi in 2018 on behalf of the Government, constructed with the support of the World Bank. Instead of selling, the farmers are facilitated to store their harvests in this store until the price levels stabilise. In the meantime, the farmers can obtain short-term loans on the warehouse receipt to meet urgent cash needs, until disposal of the harvest, once prices have come up to a reasonable level.

The Bank continued to generate fee income by channeling insurance activities relating to the loans granted by the Bank during 2018.

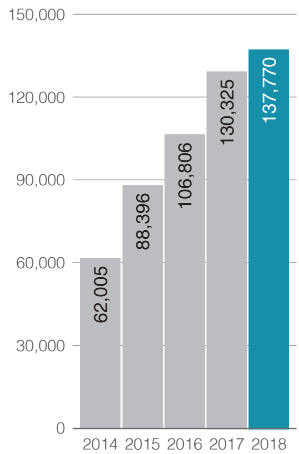
For this purpose, the Bank obtained the services of nine insurance companies to obtain insurance policies such as agriculture insurance, livestock insurance, vehicle loan insurances, housing loan insurances etc. The fee income earned during 2018, amounted over LKR 11 Mn. Based on this experience, the Bank has further strengthened the Bancassurance Unit in order to formalise and expand the insurance activities.

Further, the Bank expanded the utility bills payment facility through RDB’s branch network which was initiated in 2017 facilitating customers to settle the bills of Ceylon Electricity Board, National Water Supply & Drainage Board and Sri Lanka Telecom PLC. RDB expects to further extend this facility in the near future to other service providers as well.

In view of the volatile macroeconomic environment, the Bank did not lend aggressively compared to previous years. However, the Bank played a major role during the year in lending to needy sectors of the economy with lending products with concessionary interest rates whilst being in line with the Government vision.

Loan and advances growth

(LKR Mn.)



2018

6%

2017

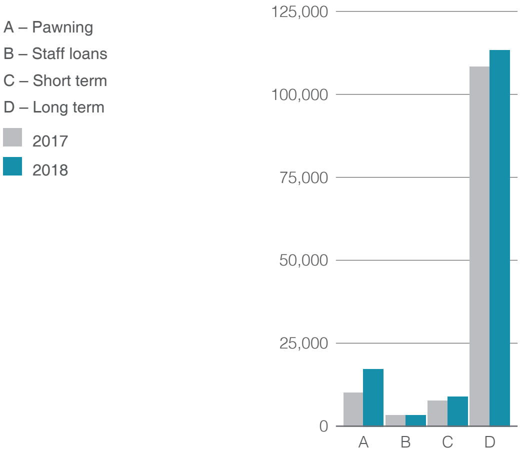
20%

Loans and advances portfolio analysis – By product

Category	2018 LKR Mn.	2017 LKR Mn.
Pawning	11,455	10,261
Staff loans	3,479	3,506
Short term	9,181	7,892
Long term	113,655	108,666
Total	137,770	130,325

Loans and advances portfolio analysis – by product

(LKR Mn.)

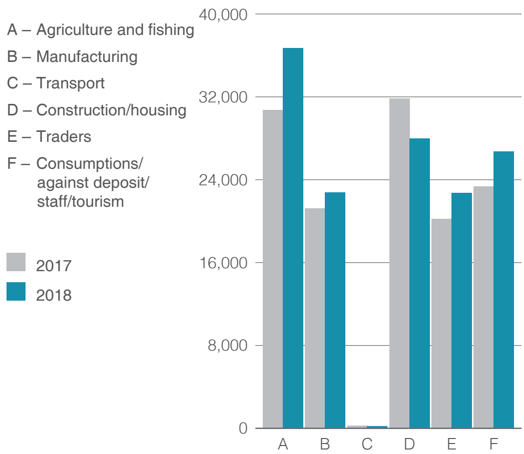


Loans and advances portfolio analysis – By industry

Category	2018 LKR Mn.	2017 LKR Mn.
Agriculture and fishing	36,860	31,115
Manufacturing	22,907	21,566
Transport	244	339
Construction/housing	28,086	32,268
Traders	22,819	20,532
Consumptions/against deposit/staff/tourism	26,852	24,506
Total	137,770	130,325

Loans and advances portfolio analysis – by industry

(LKR Mn.)



Recoveries

During 2018, special attention was given by the Bank to manage its non-performing loan (NPL) portfolio which was around 3.27% of the total portfolio at the end of 2017. As a result of the special efforts made and facing diligently the stress arisen due to certain unfortunate environmental factors experienced by many of our customers, the Bank managed to maintain the NPL ratio at 5.40% as at 31 December 2018 whilst having marginal credit growth during the year.

Non-performing category	2018 LKR Mn.	2017 LKR Mn.
Special mention	1,323	986
Substandard	2,080	885
Doubtful	1,431	533
Loss	2,429	1,787
Total non-performing	7,263	4,191
NPL ratio %	5.40	3.27

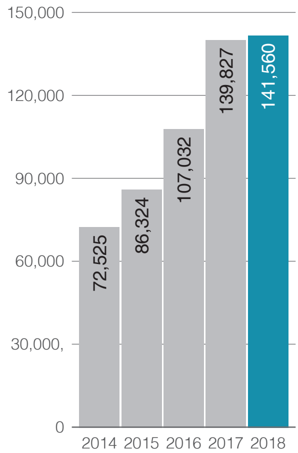
Deposit growth

Deposit base of the Bank increased to LKR 142 Bn. which represents a 1% growth over the previous year irrespective of material withdrawals of some institutional deposits during the 3rd and 4th quarter of 2018. Further the Bank was able to increase the savings deposit by LKR 3 Bn. during the year.

Deposit growth (LKR Mn.)

2018
1%

2017
31%

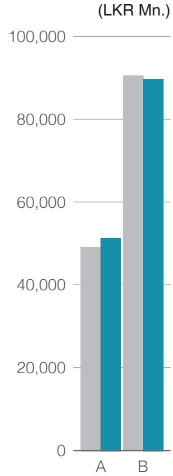


Deposit mix

Type of deposit	2018 LKR Mn.	2017 LKR Mn.
Savings deposits	51,520	48,988
Fixed deposits	90,040	90,839
Total	141,560	139,827

Deposit mix (LKR Mn.)

A Savings deposits
B Fixed deposits
2017
2018



IT achievements in year 2018

Year 2018 was another successful landmark year for the Bank as continuous enhancement of the valuable customer services were delivered through state of the art technological implementations.

As at 31 December 2018, the Bank has issued more than 150,000 ATM cards to its valuable customers and Bank owned ATM machines increased up to forty two. During this year RDB launched its first Cash Deposit Machine (CDM) and installed 5 CDM units at selected RDB branch/locations to provide 24 hour banking service. SMS alert facility was also implemented to improve the security level of the ATM and CDM operations.

A 24 hour operational call centre was established at the SLT premises where all staff have been trained professionally and to provide friendly and effective customer service in all three official languages. The call centre provides support to RDB card holders and internal staff.

The Bank added hundred new mobile devices to its Door-to-Door system to provide efficient mobile savings collection to its rural level customers. Now more than 420 Door-to-Door customer assistants operate in the Bank.

The Board Pack computer system was successfully implemented, providing this facility to the Bank's Board of Directors and the Senior Management. With the help of this system, distribution of board papers are done electronically and board meetings can be conducted without the physical presence of a board member. This system is used to conduct board subcommittees as well and helps the strategic level decision-making in the Bank be more professional and efficient.

The IT Department developed and implemented a vehicle management system (VMS) to manage Bank-owned vehicles at the head office and province level. This helps the management to take day-to-day operational, vehicle servicing and maintenance decisions in a timely and more efficient manner.

Products and services

RDB *Kekulu* – Minor savings account

RDB as a state bank, has launched a specialised savings account named “RDB Kekulu”, exclusively designed for children under 14 years of age. This enables every child in our motherland to save with RDB for a bright future. The bank works on establishing the future economic stability of the Sri Lankan sons and daughters by inculcating the savings habit and this lesson of economy from a tender age. The highest returns on savings is provided to encourage schoolchildren and minors to save. Moreover, RDB established school savings centres to motivate children to practice saving. The account is designed to achieve additional objectives i.e., assisting children’s education as well as helping them to become good citizens. RDB offers a new savings till for every new account as an attraction. Further, there is a wide range of gift items such as exclusively designed umbrellas, school bags, dictionaries, gift vouchers and children’s bicycles on offer for balances in the accounts at different levels. Gifts/prizes are offered for account holders who obtain best results at the Grade 5 Scholarships and O/L Examinations. Furthermore, educational seminars are arranged for the account holders who sit for the above examination.

RDB 4teen plus

RDB 14+ Account, a special savings tool was recently introduced by RDB Bank to encourage the young community to develop saving habits. This account has been specially planned for teenagers of 14 years and above. Practicing a saving habit from a young age by planning for the future will pave way for the security of the future. Accordingly, RDB 14+ is operated with value additions that could attract teenagers. A higher interest rate with the addition of 30% bonus interest compared to the growth of the balance in the account is offered. As an ATM Card is issued, the children above 14 have the opportunity to withdraw money for their financial needs. Therefore, children will not be required to hold much money in their hands. Schoolchildren may use this account for their urgent monetary requirements, as with every withdrawal by the ATM Card a SMS message is sent to the guardian’s mobile phone providing withdrawal details. As per the data of census and statistics, nearly 10% of Sri Lanka’s total workforce is between 15-25 years of age. That category within the workforce may reap special benefits from this account. Loan facilities may be obtained by the young community to fulfil their dreams of owning a house, vehicle, furniture, business, buying electronic equipment and accessories, for educational needs, and for foreign tours and this can be all be arranged through this account. All transaction activities will be notified by SMS messages to your mobile phone to keep you updated.

RDB *Liya Saviya* – Womens savings account

This account was introduced targeting courageous women in Sri Lanka. In addition to financial facilities, the Bank provides consultancy services for women who contribute to the country's economy through self-employment. The special characteristics in the account are higher rate of interest, bonus interest and advances on competitive interest rates etc. Also special seminars, skill development vocational training programmes and many more regional and national level workshops are conducted every year for women entrepreneurs, parallel to International Women's Day. Furthermore, the Bank is organising The Best Women Entrepreneur Islandwide Competition and RDB *Liya saviya* account holders are entitled to enroll in this competition.

RDB Victory

RDB Victory Account was introduced by the Bank as a special savings account where a higher interest can be obtained while making withdrawals. As a special benefit, a bonus interest up to 70% is offered through this account. Further, special loan facilities can be obtained by account holders. They may obtain a loan of ten times the account balance maintained. The bonus interest is paid through this account even for the number of days the deposit is held. Further, all transactions are notified by SMS messages. Savings practices of citizens are vital for the development of a country and RDB Victory Deposit can be introduced as an attractive deposit scheme that uplift the saving habits of the people. Provision of money exchange services under discounted rates is a special benefit that is offered by this account.

RDB investment account

This is the general investment account introduced by the Bank for the clients who receive credit facilities. The special features of the product include an attractive interest rate for deposits and a special loan scheme customised for the target segment.

RDB fixed deposits

RDB fixed deposits are identified as a popular mode of investments among its individual and corporate customers. FDs are available at RDB for periods of 1, 2, 3 and 6 months as well as 1-5 years. Since the inception, the Bank was able to provide very attractive interest rates compared to other banks. Special interest rates are offered for fixed deposits with maturity periods of 1 year and above.

RDB *Dorin Dora* – Convenient doorstep banking service

This is the flagship service of RDB as the pioneer of doorstep banking service provider in Sri Lanka. This system operates through a dedicated set of service providers, who on a daily basis visit the business premises and the residences in the command areas of respective branches. These regular visits provide great relief and convenience to the target group and saves them the trouble of visiting the branch multiple times for their banking transactions. The *Dorin Dora* service is not only limited to collecting deposits, but has also helped the target clientele to obtain loans for development purposes, service the loan account and pay the instalments and interest promptly at their convenience. In addition, utility bill payments can be settled through this service. This unique service has helped many small-scale entrepreneurs and individuals to build-up healthy account balances over periods of time without much effort and hassle. In addition, these transactions are carried out via electronic portable hand held devices and the transaction is automatically updated to the Bank's system. Thus it has been able to fulfil the vision of the Bank "Nurturing Entrepreneurs".

Western Union (WU) and Lanka Money Transfer (LMT)

Money transfers through the Western Union (WU) and Lanka Money Transfer (LMT) are easier and speedy ways to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas.

ATMs and CDMs

With the exception of current accounts, the Bank offers a vast range of products and services to the customers, including savings accounts, children's savings accounts, women's accounts and senior citizen's accounts, pawning facilities as well as an array of long-term loan facilities. Despite the range of services, until recently, the Bank has not offered electronic card facilities to its customers. However, with the revolutionary introduction of LankaPay common ATM switch offered by Lanka Clear the Bank is now ready to offer ATM cards to our customers. Therefore, since 2015, RDB has taken strategic actions to enable the customers to withdraw money from their accounts using the RDB ATM card through any ATMs that carries the Lanka Pay logo. As the majority of customers at RDB are made-up of rural and semi-urban entrepreneurs engaged in professions such as agriculture, fisheries, and animal husbandry, this ATM card is expected to offer better convenience as well as security. At present the Bank has installed 42 RDB ATMs islandwide.

In addition to that, RDB has introduced the Cash Deposits Machine network in 2018. These are introduced in many busy towns for convenience of the clientele. Furthermore, there are two automated banking centres in Padavi Sripura and Welioya where there are no proper banking services.

RDB – *Jaya Nidhana*

This is a product of RDB which attract customers of all economic levels. This is a certificate which gives the face values amounting to LKR 5,000.00, LKR 10,000.00, LKR 25,000.00, LKR 100,000.00, LKR 500,000.00, LKR 1,000,000.00. Mainly this product aims to enhance the fixed deposit portfolio of the Bank to provide a helping hand to specially develop the small scale entrepreneurs in the country. A special feature of this product is that customers can deposit their money at discounted value in terms of face value (future value) after maturity. RDB *Jaya Nidhana* accounts can be opened as individual and jointly for personal deposits only.

RDB New Life

Sri Lanka has been identified as a country which has a rapid growth rate of senior citizens in the region. RDB as a social responsibility decided to introduce the RDB New Life deposit scheme to attract the Senior Citizens in the country. This product serves the working generation in the ages of 16 to 55. RDB New Life deposit scheme supports people to enjoy their retirement age with a stable income by way of a pension.

We target the Bank's niche market such as rural customers, low income earning customers and self-employees, and farmers. Another main focus is foreign employees who contribute to the country's income as a whole.

Customers can open the account and send deposits monthly every three months or bi-annually. Benefits can be obtained once he or she completes the age of 55. This can be extended till the age of 60.

RDB *Uththama* – Senior citizens account

Senior citizens are 17.6% of the Sri Lanka's population according to recent records. To give due recognition to senior citizens RDB started its new product "RDB *Uththama*" savings account. This account can be opened with LKR 500.00 and only as an individual account.

A Special feature in *Uththama* account holders is the ability to obtain RDB *Detusavi* loans through this account. Service charges are not charged if utility bills are paid through this account. RDB pays special attention to customers who have stepped into our doors and give priority for their needs. RDB organises foreign pilgrimages with a special discounted rate for senior citizen account holders. Also the Bank offers 2.5% of the balance of more than LKR 100,000.00 for their medical check-ups.

Government and non-Government pensioners and all others above the age of 55 years are eligible to open this account.

Social responsibility – CSR

Developing awareness and concern amongst staff members on issues faced by society, reinforcing their responsibility towards the Bank's stakeholders and shareholders, and reinforcing the Bank's responsibilities towards the betterment of the public and the environment can be recognised as services towards the society.

RDB Bank benefits from being a fully state-owned entity and is committed to upholding its social obligations. Accordingly, the Bank has not acted solely on profit-making motives during the short period of its existence. Instead, the Bank in its capacity has played its part in any way possible towards the upliftment of social welfare.

In line with its Mission, RDB provides financial and advisory service through a dedicated team of professionals and aims to productively uplift the socio-economic prosperity of regions. The Bank's vision is nurturing entrepreneurs who will propel our country's socio-economic prosperity.

A significant aspect of the Bank's social welfare programme is the barefoot banking concept where banking services are provided to uplift Micro Small and Medium scal women entrepreneurs with concessionary interest rates.

Overall, RDB has been able to make a substantial contribution in the implementation of major social service programmes in the country, with the cooperation and dedication of its entire staff. As a result, the Bank can stand as a strong example to the state sector as well as the private sector.

Sanitary facilities for government schools

For the purpose of uplifting sanitary facilities in schools of remote areas, the Bank donated sanitary facilities for Monaragala Primary School, Dodamgaslanda Maha Vidyalaya, Lulkandura Tamil Vidyalaya, Dehiovita National School, Madakumbura Vidyalaya, and Nawagaththegama Primary School. Budgetary allocation for this Corporate Social Responsibility (CSR) programme was LKR 3 Mn.

Donation of dry rations for flood-affected people in North and East

In collaboration with the welfare society the Bank donated dry rations to people who were affected by flood in North East areas such as in Kilinochchi, Vauniya, and Mullaitivu. Staff members of the Bank voluntarily participated in this event to give their helping hand to brothers and sisters of our country as one nation.

Grade 5 scholarship examination seminars

Examination preparation seminars for Grade 5 students were organised covering several provinces in the country. On 16 July 2018 this was held at Kurunegala. Parallely seminars were held at Ratnapura and Kandy with a participation of more than 500 students in each seminar.

RDB opens biggest grain warehouse

The Regional Development Bank has always sought to uplift and empower the lives of its grass root level customers over the years. The Bank has initiated several projects to fulfil this goal. The recent opening of warehouses in Polonnaruwa, Embilipitiya and Kilinochchi in 2018 where farmers can safely store there harvest is one such occasion. Capacity of the warehouse is 5,000 Mt.

The lack of adequate storage facilities can affect the farmers in a myriad of negative ways. Improper storing practices too can reduce the value of their harvest. The warehouse project is a solution to these issues that farmers face and offers them a safe quality warehouse, where they can keep their grain without fear of insects, rodents, water damage and etc.

The project is run in collaboration with the Ministry of Finance and RDB. Where farmers in the village and nearby areas were given a place to store the harvest. The warehouse is equipped with modern machinery such as driers, boilers, hullers and has a laboratory to check the quality of the harvest.

In addition to providing a safe place for the storage of grains, the Bank helps the farmers sell their harvest at a competitive price and also provides financial assistance should they require it. Farmers are given the opportunity to obtain financial facilities under the Warehouse Receipt Financing Facility as well where the Bank obtains the grain stock as the surety.

Progress of warehouse project

Warehouse	Crop	Weight Kg	Value LKR
Upuldeniya	Paddy	182,624	7,305,000
	Maize	115,025	6,096,325
Buttala	Paddy	54,579	2,183,160
	Pepper	7,295	3,364,950
	Maize	4,518	234,936
	Cashew nuts	916	164,880
Murunkan	Paddy	695,950	27,986,000
Kilinochchiya	Paddy	143,162	4,024,296
Embilipitiya	Paddy	9,683	395,780
Madirigiriya	Paddy	875	87,500
Grand total (Paddy)		1,086,873	41,981,736
Grand total (Maize)		119,543	6,331,261
Grand total (Pepper)		7,295	3,364,950
Grand total (Cashew nuts)		916	164,880

Customer awareness programme

Regional Development Bank invested its resources for the rural and semi-urban masses to become responsible citizens through many special briefings and training programmes conducted regularly. Such efforts allowed them to plan, organise and implement their day-to-day lives in a better manner and to explore ways and means to upgrade their lifestyles through material and time-saving methods, rather than only focusing on an approach of saving rupees and cents.

RDB also provides advice and guidance for entrepreneurs to avoid bad practices and bring in sound values to their lives in order to make the society better through productive and interactive sessions. In addition, the Bank also provided assistance for promising, viable projects initiated by individuals who portrayed the talent, drive and vision to make their projects into successful ventures.

Overview

The Bank is involved in achieving business goals in a consistent manner by applying strategic and integrated approach in acquisition, development and engagement of human capital by using relevant tools, proper policies, practices and processes. This holistic approach has created a conducive climate towards achieving business objectives of the Bank and employee well-being resulting in enhancing employee productivity impact.

Manpower requirement was assessed based on scaling up of branch operations and other business requirements as identified in the Corporate Plan and continued to review staffing structures, functionality, and staffing compositions in order to facilitate functional integration and strategy alignment.

Financial KPI in HR

The financial KPI with regard to the workforce productivity continued to improve in 2018 as the employees of the Bank contributed to increase development lending portfolio significantly compared with previous years while maintaining financial KPI (LKR Mn.).

Financial KPI with regard to the workforce productivity impact for 2016 – 2018

	2016 LKR	2017 LKR	2018 LKR
Total operating profit	2,130	3,307	**3,606**
Total income	15,744	22,016	**26,071**
Loan portfolio	106,806	130,325	**137,770**
Deposit portfolio	107,032	139,827	**141,560**
Total headcount (FTE)	2,342	2,395	**2,345**
Total cost of workforce	4,699	5,346	**6,225**
Revenue per FTE	6.72	9.19	**11.12**
Profit per FTE	0.91	1.38	**1.54**
Deposit portfolio per FTE	45.70	58.38	**60.37**
Loan portfolio per FTE	45.60	54.42	**58.75**

Manpower strength

The manpower of the Bank consisted employees who have been deployed for the cadre positions on permanent and contract basis. Apart from that, Door-to-Door Field Assistants (those who were converted to fixed term contract) and Rural Leaders (linked with microfinance system) would provide manpower service to the Bank. Also the Bank provides opportunities for trainees who are required to undergo training (6-12 months) as requested by universities, technical colleges, recognised professional institutions and school leavers; those who are eligible for the university entrance. These categories would provide valuable inputs to the Bank performance. The summary of the manpower strength is as follows:

Manpower type	Head count
Permanent/contract employees	2,345
Door-to-door field assistants	399
Rural leaders	340
Total head count	3,084

The cadre positions as at 31 December 2018 was 2,345. The breakdown of the cadre details province-wise is given below:

Province	No. of branches	Head count	%
Western	34	285	12.15
Central	33	287	12.24
North Central	32	248	10.58
Southern	54	387	16.50
Uva	26	195	8.32
Sabaragamuwa	34	257	10.96
North Western	35	321	13.69
Eastern	20	159	6.78
Head Office	–	206	8.78
	268	2,345	100.00

Headcount distribution by job category as well as management level is given below:

Job category	Head count	Management level	%
General Manager/ CEO	1	Corporate management	0.34
DGMs/Head of Divisions	7		
RGMs/SAGMs	11	Senior management	1.24
AGMs	18		
Chief Manager	51	Executive management	6.52
Senior Manager	102		
Assistant Manager – Manager	926	Executives	43.93
Officer Gr. IV	104		
Banking Assistant and allied	981	Clerical and allied	41.83
Driver	60	Other grades	6.14
Office Assistant/ labourer	84		
Total head count	2,345		100.00

The Bank provides equal employment opportunities for both male and female which is profiled below:

Gender	Head count	%
Female	1,031	43.97
Male	1,314	56.03
Total	2,345	100.00

Career advancement

The Bank provided continuous ongoing training to change the attitude of staff and impart knowledge and hands on learning experience towards banking operations and better customer service. During the year 81 programmes were conducted with 2,493 participants. With the collaboration of Chartered Institute of Personnel Management (CIPM) 40 Chief Managers were given six months career advancement training under the scope of Executive Development Programme.

The foreign exposure visits were arranged in Philippines and Indonesia in six batches with 240 participants who represented mostly the staff of branches with the purpose of providing exposure on best practices and hands on learning experience on various projects assisted by banks where they have been trained in innovative agriculture and value chain financing schemes for farmers, fishermen and entrepreneurs and financial instruments to support agricultural value chain financing. In addition, 9 officers were given opportunities for foreign training to impart knowledge in their functional areas. Branch Staff who won Best Branch 2015 and 2016 were given foreign tours. Total investment for both local and foreign training during the year was LKR 60.88 Mn.

Staff recognition

Best Performance Awards was conducted to recognise the staff who contributed to Bank performance during 2017. The system was introduced with clearly defined criteria under each category of awards and selected the best performers under team performance category. The award ceremony was held as a national event with Guest of Honour, Minister of Public Enterprise Development, Hon Lakshman Kiriella, other senior officials of the Ministry and the Board of Directors. Balangoda Branch won first place for overall performance and another 40 awards were given to different categories of performance. The 206 employees who have completed 25 years of satisfactory service in the Bank were recognised with Gold awards.

Grievance redressal

The Bank introduced a mechanism to discuss staff-related issues and grievances as it is expected to resolve potential conflict by way of improving communication. An Employee Day was declared at head office and provincial level to discuss HR-related issues, fixing dates on quarterly basis and communicated to the staff.

Employee benefits

Salaries of the employees of RDB were increased from 14.5% to 50% for the period of three years from 2018 and decided to adjust salaries relating to all grades equal with state banks with effect from January 2019 whereas enhancement of non-salary benefits remain unpaid until other state banks finalise the revision.

Action re-initiated to discuss with unions to suggest a pension benefit scheme to enable active employees of RDB to participate in several actuarial valuation which were assessed to derive financially affordable pension benefit scheme.

Absorbing Lankaputhra Development Bank (LDB) staff consequent to the acquisition

With the approval of Monetary Board of Central Bank of Sri Lanka, action initiated to absorb 165 active employees of LDB through the HR due diligence report conducted by CIPM Sri Lanka. In effect of the amalgamation, it is envisaged that the RDB will reorient and diversify its business activities to cater to a wider portfolio of funding needs of the combined entity serving rural entrepreneurs of the SME sector, Project Financing, Development Financing and Micro Enterprise Development. A reposition plan was prepared to absorb experienced and skilled employees of LDB to be integrated to the present cadre of RDB as proposed in the HR Due Diligence report and the VRS was finalised to offer to those who do not wish to join RDB.

HR Board subcommittee

In terms of the Corporate Governance practices and the Directions of the CBSL two separate subcommittees were formed as Board Human Resources and Remuneration Committee and Nomination Committee. These two committees were headed by the Chairman of the Bank. Three Nominations Committee meetings and four Board Human Resources and Remuneration Committee meetings were held during the year 2018.

“RDB Walk”

The Regional Development Bank conducted “RDB Walk” in eight major cities islandwide on 3 November 2018 as an image building and brand awareness programme. All staff members and thousands of loyal customers participated in this event. In line with this programme, there were eight environmental protection and tree planting programmes organised on the same day.

School savings units

Under the supervision of the Eastern Province Office of RDB, School Savings Units at few schools in Batticaloa were opened by the Deputy General Manager – Operations and Business Support Services, Mr A H M M B Jayasinghe on 3 November 2018 to inculcate savings habits among schoolchildren.

Promotion of *“Kekulu”* childrens accounts

To promote *“Kekulu”* childrens accounts and inculcate savings habit among children, the North Western branches of RDB conducted a promotion programme in September 2018 to mark World Children's Day. As a part of this programme, selected children had an opportunity to visit Leisure World, Homagama with their parents sponsored by the Bank.

Celebration of World Children's Day Programme

All branches of RDB organised Children's Day Programmes on September 30, 2018. Thousands of pre-school and primary school children participated in several competitions in this programme and winners were awarded with certificates and gifts.

North Central Province alms giving

Annual alms giving organised by the North Central Province office was held at Anuradhapura Mahaviharaya in June 2018, with the Management and staff members participating.

Golden award ceremony

In appreciation of services of RDB family members Service Excellence Award Ceremony was held at BMICH. 205 staff members who have completed 25 years of track record in RDB were awarded at this special event.

Celebrating national youth day

In celebration of "National Youth Day" a programme was organised at Nelum Pokuna to promote the Enterprise Sri Lanka loan programme among youth with the participation of Hon Prime Minister as the Chair.

Participated in Enterprise Sri Lanka exhibition at Monaragala

As a national responsibility, the Bank participated at the "Enterprise Sri Lanka" exhibition on 29, 30 and 31 August at Monaragala. The loans were disbursed for selected entrepreneurs of Uva Province.

Door-to-door agents annual get together

RDB has 268 agents to promote our unique Door-to-Door product which was introduced for the first time in Sri Lanka. An annual get together was organised for these agents in appreciation of their valuable service to the Bank.

Installation of CDM Machine

In keeping up with new technology RDB's 1st CDM machine was installed at Head Office premises at Wedamulla, Kelaniya.

Appointment of new Chairman

Mr Sujith Kariyawasam Attorney-at-low assumed duties as the 5th Chairman of RDB.

Signing of the collective agreement

Bank employees are considered as the back bone of the national economy. As the pioneer development Bank in Sri Lanka a collective agreement for 2018 to 2022 was signed matching the salaries and other perks with all other State Banks in Sri Lanka.

Branch relocations

Kalutara

Kalutara branch moves to a more convenient location and ceremonially opened by Chairman Mr Kasturi Anuradhanayake along with the GM/CEO Mr T A Ariyapala on 21 March 2018.

Tissamaharama

Tissamaharama branch moves to a more convenient location and ceremonially opened by Chairman Mr Kasturi Anuradhanayake along with the Working Director Mr Priyantha Abeysinghe and GM/CEO Mr T A Ariyapala on 10 April 2018.

Pitigala

Pitigala branch moves to a more convenient location and ceremonially opened by GM/CEO Mr T A Ariyapala on 15 May 2018.

Hataraliyadda

Hataraliyadda branch moves to a more convenient location and ceremonially opened by Chairman Mr Kasturi Anuradhanayake along with the Working Director Mr Priyantha Abeysinghe and GM/CEO Mr T A Ariyapala on 28 June 2018.

Pujapitiya

Pujapitiya branch moves to a more convenient location and ceremonially opened by Chairman Mr Kasturi Anuradhanayake along with the Working Director Mr Priyantha Abeysinghe and GM/CEO Mr T A Ariyapala on 28 June 2018.

Nattandiya
Nattandiya branch moves to a more convenient location and ceremonially opened by Chairman Mr Kasturi Anuradhanayake along with the Working Director Mr Priyantha Abeysinghe and GM/CEO Mr T A Ariyapala on 2 July 2018.

Kalawana
Kalawana branch moves to a more convenient location and ceremonially opened by Working Director Mr K Amarasinghe along with the GM/CEO Mr T A Ariyapala on 3 September 2018.

Katugastota
Katugastota branch moves to a more convenient location and ceremonially opened by Chairman Mr Sujith Prasanna Kariyawasam along with the GM/CEO Mr T A Ariyapala on 22 October 2018.

Laggala
Laggala branch moves to a more convenient location and ceremonially opened by Chairman Mr Sujith Prasanna Kariyawasam along with the GM/CEO Mr T A Ariyapala on 21 November 2018.

Damana
Damana branch moves to a more convenient location and ceremonially opened by Chairman Mr Sujith Prasanna Kariyawasam along with the GM/CEO Mr T A Ariyapala on 10 December 2018.

Rideemaliyadda
Rideemaliyadda branch moves to a more convenient location and ceremonially opened by the GM/CEO Mr T A Ariyapala on 17 December 2018.

6.
Stewardship

Ethical conduct and integrity are key elements which provide confidence to our stakeholders. Our well-defined and effective governance structure and risk management mechanism promotes the success of our Organisation and strengthens its sustainability.

1. Mr J T S P Kariyawasam
Chairman

Mr J T S P Kariyawasam assumed duties as the Chairman of Pradeshiya Sanwardana Bank also known as Regional Development Bank on 1 October 2018.

Mr J T S P Kariyawasam was a bright Old Boy of the Carey College and D S Senanayake College, Colombo and a Graduate of BSc. Business Administration (Honours) at the University of Sri Jayewardenepura. He is also a senior member of the Association of Accounting Technicians of Sri Lanka and an Attorney-at-Law by profession.

Mr Kariyawasam had held top posts in number of state institutions and former Chairman of Lankaputhra Development Bank, The Tea Small Holding Authority, Tea Shakthi Fund and the Sri Lanka Coconut Development Authority (CDA). He was awarded as National Liaison Officer of Sri Lanka of Asia and Pacific Coconut Community during the tenure at CDA. He has worked as the Working Director of Maga Naguma Emulsion Co. (Pvt) Ltd. and the Road Development Authority for a long period of time.

Moreover, he has also served as a member of the Board of Directors of Coconut Cultivation Board, Coconut Research Institute, Maga Naguma Consultancy and Project Management Co (Pvt) Ltd. and Maga Naguma Emulsion Production Co (Pvt) Ltd.

2. Mr K B Rajapakse
Director

Mr K B Rajapakse is the Senior Deputy General Manager (Retail Banking) of People's Bank and counts over 31 years of experience in the field of Commercial and Development Banking. He is an Attorney-at-Law and holds a Second Class Honours Degree, BSc in Public Administration, University of Sri Jayewardenepura, Sri Lanka.

He also holds a Diploma in Institute of Credit Management of Sri Lanka, Postgraduate Diploma of Management and IT from University of Kelaniya and is a fellow member of Institute of Bankers of Sri Lanka.

At present, Mr Rajapakse is serving as a Director of Institute of Bankers of Sri Lanka, Agricultural and Agrarian Insurance Board and also serves as an Alternate Director of Credit Information Bureau of Sri Lanka.

3. Mr. M J P Salgado
Director

Mr Salgado is a permanent employee of Bank of Ceylon holding a position of Deputy General Manager. His current business portfolio includes Product Development and Business Process Re-Engineering Project, Electronic Banking and Debit/Credit Card Operations, Central Back Office, DMS Project and Organisation and Methods.

He counts 29 years of experience in banking gaining wide experience in the fields of Province Sales Management, Premier Banking, ISSP Implementation, Special Project, Call Centre and BOC Assurance. He was an active member of the "Venesa Transformation Project" in the Bank of Ceylon.

Graduated from the University of Sri Jayewardenepura, he holds a B. Com Second Class Upper Division Special Degree, Associate Member of the Institute of Bankers of Sri Lanka, Licentiate Certificate from the Institute of Chartered Accountants of Sri Lanka and Member of Association of Accounting Technicians of Sri Lanka. Prior to joining the Bank, Mr Salgado was employed at Mahaweli Engineers and Construction Agency in the capacity of an Accountant.

4. Mr A K Seneviratne
Director (Appointed on 21 February 2019)

Mr Ananda Kithsiri Seneviratne is a special grade officer of the Sri Lanka Administrative Service (SLAS).

Mr Seneviratne holds an Honours Bachelor's Degree specialising in Chemistry from the University of Kelaniya. He has obtained a Postgraduate Diploma in Business and Financial Administration from the Institute of Chartered Accountants of Sri Lanka and Master's in Business Administration from the University of Colombo.

He joined the Sri Lanka Administrative Service in 1995. Upon completion of his in-service training year he was appointed as an Assistant Director to the Department of Fiscal Policy of the Ministry of Finance in 1996. In 2006, he was assigned to the Department of National Budget of the same Ministry as a Director. In 2015, he was appointed as the Director General of the Department of Fiscal Policy. Since January 2018, Mr Seneviratne has been working as the Director General of the Department of National Budget until he was appointed as a Deputy Secretary of the Treasury in February 2018.

Mr Seneviratne has also served as a Board Director in many state-owned enterprises.

5. Mr K B Wijeyaratne
Director

Mr Kithsiri B Wijeyaratne is the Deputy General Manager – Finance and Planning of the National Savings Bank and counts over 35 years experience in the Audit and Financial services sector locally and overseas having served in Senior Management position at premier financial institutions with extensive experience in the field of Insurance and Banking.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA), Fellow Member of the Certified Management Accountants of Sri Lanka (FCMA), Senior Member of the Institute of Association of Accountants of Sri Lanka (FMMAT) and Fellow Member of the Institute of Bankers of Sri Lanka (IBSL) and Member of the Organisation of Professional Associations (OPA).

Mr Wijeyaratne holds a Second-class Honours Degree, BSc in Business Administration from University of Sri Jayewardenepura, Sri Lanka and Diploma in Public Finance and Management (DPFM) from Sri Lanka Institute of Development Administration (SLIDA).

6. Mr A R Desapriya
Director (Resigned in January 2019)

Mr A R Desapriya has 32 years of work experience in the public sector. He is now a special grade officer of Sri Lanka Administrative Service (SLAS).

During the period, he worked in different areas of the public sector activities and held various positions of the General Treasury in the capacity of Director, Additional Director General and Director General. Presently he holds a position of Deputy Secretary to the General Treasury.

He is also serving as a Chairman to the Board of Regional Development Bank and a member of the Welfare Benefits Board.

Mr A R Desapriya has a BSc Degree in Public Administration from the University of Sri Jayewardenepura, Sri Lanka and MBA Degree from University of Lublijana, Slovenia.

7. Mr K Amarasinghe
Director – Executive Director (Till 4 April 2019)

Mr K Amarasinghe assumed duties as a Director of the Bank on 31 July 2018.

He holds a Diploma in Estate Administration and a Diploma in Languages (Japanese).

He has worked as the Acting Chairman as well as the Working Director of Sri Lanka Savings Bank. He was a Deputy Director – Investigation at the Ministry of Commerce and Consumer Affairs. Further he has worked as the Chairman of Awakasha Media and as the General Manager at Japan Lanka Auto Land (Pvt) Ltd. He has also served as the Manager – Administration of Tyni Woods (Pvt) Ltd. as well as the Managing Director of K Amarasinghe & Company (Importing of Dental Equipment). Prior to that he served as an Estate Administrator at Thiniyawala Tea Estate.

He serves as a Justice of Peace (All Island) since 2002 and is presently the Coordinating Officer of Hon. Ravi Karunanayake, Minister of Power, Energy and Business Development.

8. Mr Neil De Alwis
Director (Till 4 April 2019)

Mr Neil De Alwis holds a MA in Public Administration (Development Administration) from Carlton University, Canada, and a BA Hon. (Economics – Special) Degree, Peasant Agriculture and Rural Development (Second Class Upper Division) from University of Peradeniya. He also holds a diploma in Devolution Local Governance from University of Colombo.

Mr Alwis was the former Secretary to the Ministry of Home Affairs. He has worked as District Secretary/ Government Agent, at Matale as well as Ampara. Further he has worked as the Secretary, Provincial Ministry of Agriculture, Animal Production and Health, Agro-Product Marketing, Women's Affairs and Provincial Council Affairs, North Central Province. Apart from that Mr. Alwis has also worked as an Assistant Secretary Training, Office of the Chief Secretary, Commissioner (Acting), Provincial Ayurvedic Department, Divisional Secretary, Thambuththegama, at North Central Province as well as Assistant Commissioner (Development) at Department of Housing, Colombo, and Assistant Director (Administration), Department of Buildings, Colombo.

Corporate Management Team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1. Mr T Kuhan
Acting General Manager/CEO

Mr T Kuhan, a professional banker, joined RDB in September 2011 after serving two reputed private banks, namely HNB and Union Bank. He counts over 27 years of continuous service exclusively in the banking sector in different managerial capacities with exposure to development banking, corporate credit, branch banking, risk management and trade financing. He is a holder of Masters in Financial Economics and Postgraduate-Diploma in Economic Development both from the University of Colombo. His other qualifications are Postgraduate Diploma in Bank Management and Diploma in Banking and Finance both from the Institute of Bankers of Sri Lanka (IBSL) and National Diploma in Technology (NDT) in Mechanical Engineering awarded by University of Moratuwa. He is a Senior Fellowship Holder of IBSL. He is also an examiner and a visiting lecturer of IBSL.

2. Mr V Jayasinghe
Chief Information Officer

Mr Jayasinghe, an IT professional with more than twenty years of experience, joined Regional Development Bank in June 2011. He holds a B.Sc. Engineering Degree from the University of Moratuwa. He also has a Master of Engineering Degree from the Asian Institute of Technology in Thailand and Master of Business Administration Degree from the University of Hawaii, USA. After graduation, he started his career as a Systems Engineer at IBM World Trade Corporation. He counts more than sixteen years of work experience in Management positions of financial services and banking industry. A Certified Information Technology Professional (CITP) of the British Computer Society and a Certified Project Management Professional (PMP) of the Project Management Institute of USA, Mr Jayasinghe is a Chartered Engineer in Information and Communication Technology.

3. Mr K M J S Karunathilaka
Head of Human Resource Development and Administration

Mr K M J S Karunathilaka, a HR specialist with more than 32 years experience, joined RDB in July 2014. He worked as Assistant General Manager/ Head (Human Resources and Logistics) of State Mortgage and Investment Bank (SMIB). He served as Additional Project Director (HRD & Admin.) in Gamidiriya (World Bank-aided project). He also worked as Director (HRD and Admin.) of Sri Lanka Rupavahini Corporation and Senior Management Consultant and Manager (Admin. and Finance) of Sri Lanka Institute of Co-operative Management.

Mr Karunathilaka possesses a B.Sc. Business Administration (Special) Degree from University of Sri Jayewardanepura (1986), holds a Postgraduate Certificate in HRM (1996) and an MBA (2003) from the Postgraduate Institute of Management (PIM). He is an Associate Member of the Institute of Personnel Management of Sri Lanka (IPM). He is a recipient of the National HR Excellence Award 2010 from IPM.

Mr Karunathilaka has obtained Certification for conducting HRD Audits from IPM (2017) as "Certified HR Auditor".

4. Mr P S Edirisuriya
Chief Financial Officer

Mr Edirisuriya graduated from the University of Sri Jayewardanepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr Edirisuriya counts over 28 years of experience in the fields of Auditing, Accounting, Taxation, Management Consultancy and Banking and Finance at leading institutions including Ernst & Young – Colombo, National Development Bank and Seylan Bank. He joined RDB in January 2017. Prior to his appointment as Chief Financial Officer at RDB, he has held the positions of Chief Financial Officer, Compliance Officer and Acting General Manager/CEO at Lankaputhra Development Bank.

5. Mr A H M M B Jayasinghe
Deputy General Manager – Credit and Recoveries

Mr Jayasinghe graduated from the University of Sri Jayewardanepura Sri Lanka with a B.Sc. Business Administration Special Degree, in 1986.

He holds Postgraduate Executive Diploma in Bank Management from Institute of Bankers of Sri Lanka, Postgraduate Diploma in Management from University of Wayamba, Postgraduate Diploma in Regional Development from NIBM Sri Lanka and M.B.A. from University of Wayamba.

After the graduation he joined the Regional Development Bank in 1987 and served at the levels of Branch Manager, Zonal Manager, District Manager, Chief Manager, Assistant General Manager and Regional General Manager. Mr A H M M B Jayasinghe has over 31 years of experience in Banking Industry.

6. Mr C L Pihillanda
Deputy General Manager – Operations and Business Support

Mr Pihillanda has successfully completed the Degree in Bachelor of Commerce from University of Kelaniya. He holds Postgraduate Diploma in Management from University of Peradeniya. Also passed Intermediate Examination from Institute of Bankers of Sri Lanka. He joined the Bank (previously Mahanuawara Regional Rural Development Bank/RRDB) as a Manager. During his career of banking he has gained wide range of experience in management level as a Branch Manager, Chief Manager, and Assistant General Manager and also as a Regional General Manager in Sabaragamuwa and Southern Provinces. He has over 31 years of experience in Banking Industry.

7. Ms N S Thilakarathna
Head of Audit

Mrs Thilakarathna was appointed as the Head of Audit of the Bank since April 2017. She is a fellow Member of the Institute of Chartered Accountants of Sri Lanka. She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper from the University of Sri Jayewardanepura. She is a fellow member of the Institute of Bankers of Sri Lanka. She holds a Diploma in Information System Security Controls and Audit conducted by the Institute of Chartered Accountants of Sri Lanka with technical collaboration of the Institute of Chartered Accountants of India. Before joining the Bank she was the Chief Internal Auditor of The People's Bank and counts 28 years of experience in project lending and auditing.

Regional General Managers/ Senior Assistant General Managers

1. Mr D M S Bandara
Regional General Manager – Central Province

B.Com (Special) Degree – University of Sri Jayewardenepura

2. Mr D M T S Kumara
Regional General Manager – North Western Province

B.Sc. Business Administration (Special) Degree – University of Sri Jayewardenepura
MA – University of Kelaniya

3. Mr W M N De Silva
Regional General Manager – Southern Province

B.Sc. Business Administration (Special) Degree – University of Sri Jayewardenepura, Sri Lanka

4. Mr A H M G Abeyrathna
Regional General Manager – North Central Province

B.Com (Special) Degree – University of Kelaniya
Diploma in Micro Finance – Open University of Sri Lanka

5. Mr G S De Silva
Regional General Manager – Western Province

B.Sc. – Business Administration (Special) Degree – University of Sri Jayewardenepura

6. Mr B H M S Basnayaka
Regional General Manager – Uva Province

B.Sc. Business Administration (Special) Degree – University of Sri Jayewardenepura
Diploma in Management – University of Uva

7. Ms C S Weragoda
Regional General Manager – Sabaragamuwa Province

B.Sc. Business Administration (Special) Degree – University of Sri Jayewardenepura, Sri Lanka

8. Mr R M R Randeniya
Regional General Manager – Eastern Province

BA Degree – University of Peradeniya

Certificate of Banking and Finance – Institute of Bankers of Sri Lanka

9. Mr K P Dahanayake
Senior Assistant General Manager – Human Resource Development and Administration

B.Com (Special) Degree – University of Ruhuna
Postgraduate Diploma in Management – University of Rajarata

10. Mr W M D S Wickramasinghe
Senior Assistant General Manager – Compliance

B.Com (Special) Degree – University of Ruhuna
Postgraduate Diploma in Business Management – University of Colombo
Certificate in Risk Management in Banking – Sweden

Assistant General Managers/Heads of Divisions


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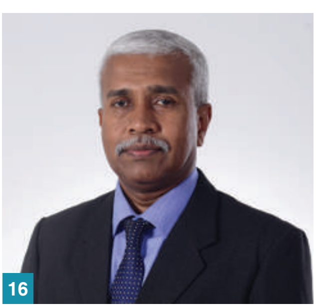
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1. Mr K Ariyathilaka
Assistant General Manager – Micro Finance

Higher National Diploma in HRD – National Institute of Business Management

2. Mr B M U S Basnayaka
Assistant General Manager – Operation

Diploma in Agriculture – College of Agriculture, Pelvehera

3. Mr D S P C Handunhewa
Assistant General Manager – Marketing, Research and Product Development

Diploma in Micro Finance – Institute of Bankers of Sri Lanka
CBF – Institute of Bankers of Sri Lanka

4. Mr W V E G Warakagoda
Assistant General Manager – Treasury

B.Sc. – Business Administration (Special) Degree – University of Sri Jayewardenepura

Intermediate Examination – The Institute of Chartered Accountants of Sri Lanka

5. Mr L B Upali
Assistant General Manager – Credit

B.Com (Special) Degree – University of Kelaniya

Intermediate Examination – The Institute of Chartered Accountants of Sri Lanka

6. Ms B R D Pushpakumari
Assistant General Manager – North Western Province

B.Com (Special) Degree – University of Kelaniya

7. Mr D P Dharmadasa
Assistant General Manager – Central Province

BA Degree – University of Peradeniya

8. Mr P S T Ranathunga
Assistant General Manager – Uva Province

BA (Special) Degree – University of Colombo

9. Mr K C D Dharmapriya
Assistant General Manager – Risk Management

BA Degree – University of Peradeniya
Senior Associate Member of Institute of Bankers of Sri Lanka

10. Mr P M S Wickramaratna
Assistant General Manager – Recovery

B.Com (Special) Degree – University of Colombo

Intermediate Examination – The Institute of Chartered Accountants of Sri Lanka

CBF – Institute of Bankers of Sri Lanka
MAAT

11. Mr M M M S Ananda
Assistant General Manager – Western Province

Associate Membership of Institute of Bankers of Sri Lanka

12. Mr B G W A Kumara
Assistant General Manager – Eastern Province

B.Sc. Public Administration (Special) Degree – University of Sri Jayewardenepura

13. Mr M A Gnanarathne
Assistant General Manager – Sabaragamuwa Province

B.Sc. Public Administration (Special) Degree – University of Sri Jayewardenepura

14. Mr K B Wijerathna
Assistant General Manager – Finance

B.Sc. Business Management (Special) Degree – University of Rajarata

Intermediate Examination – The Institute of Chartered Accountants of Sri Lanka

CBF – Institute of Bankers of Sri Lanka

15. Mr G M B C De Silva
Assistant General Manager – North Central Province

B.Com Degree – University of Sri Jayewardenepura

Associate Membership of Institute of Bankers of Sri Lanka

MBA – University of Wayamba, Sri Lanka

16. Mr W M S Wijethunga
Assistant General Manager – Information Technology

B.Sc. in Applied Science Degree – University of Sri Jayewardenepura
M.Sc. in IT – University of Colombo
MBA Specialised in IT – Sikkini Manipal University
PGEXDip in Bank Management – Institute of Bankers of Sri Lanka

17. Mr W P M K Dasantha
Assistant General Manager – Building and Maintenance

B.Sc. (Eng.) – Hons. – University of Moratuwa

PGDip. in Technology – Open University of Sri Lanka

18. Major General Jagath Pakshaweera
Chief Security Officer

RSP, VSV, USP (Rtd)

19. Ms R M T Rajapaksha
Board Secretary

Attorney at Law
LLB – University of Colombo

Risk governance structure of RDB starts from the Board of Directors and drills down to the Branch level through risk management policies, procedures, committees and delegated authority levels.

In general, the banking business is regarded as risky business and faces several types of risks such as Credit Risk, Operations Risk and Market Risk. In addition to these three main risk categories, banks also have to consider various other risk categories such as Strategic Risk, Forex Risk, Compliance Risk, Legal Risk and Reputation Risk. These kinds of risks highlight the importance of having risk management practices in banking. If banks do not address the risks, this can lead to significant losses for the institution. Hence, in order to have a sound and healthy institution, new techniques have been introduced/developed in the modern banking industry to manage these losses/risks. In line with this, RDB is also in the process of adopting best practices and new risk management techniques to manage its risk.

In this section, we have disclosed information relating to each category of risk which the Bank faces during its last operational year. These disclosures provide information on the risk appetite/exposures faced by the Bank and the risk governance and assessment process which are in place to monitor its risk.

Integrated risk governance

Risk governance structure of RDB starts from the Board of Directors and drills down to the Branch level through risk management policies, procedures, committees and delegated authority levels. The Board of Directors of RDB has the final responsibility in governing the risk of the overall Bank. Board Integrated Risk Management Committee (BIRMC), Board Credit Committee (BCC), Board IT Committee and the Board Audit Committees (BAC) are supporting to the Board to oversee the overall risk management of the Bank and Management Committees (MC) and the Chief Risk Officer who is an independent person from the business line of the Bank (CRO) provide the regular reports to the Board on the day-to-day operation of all business levels.

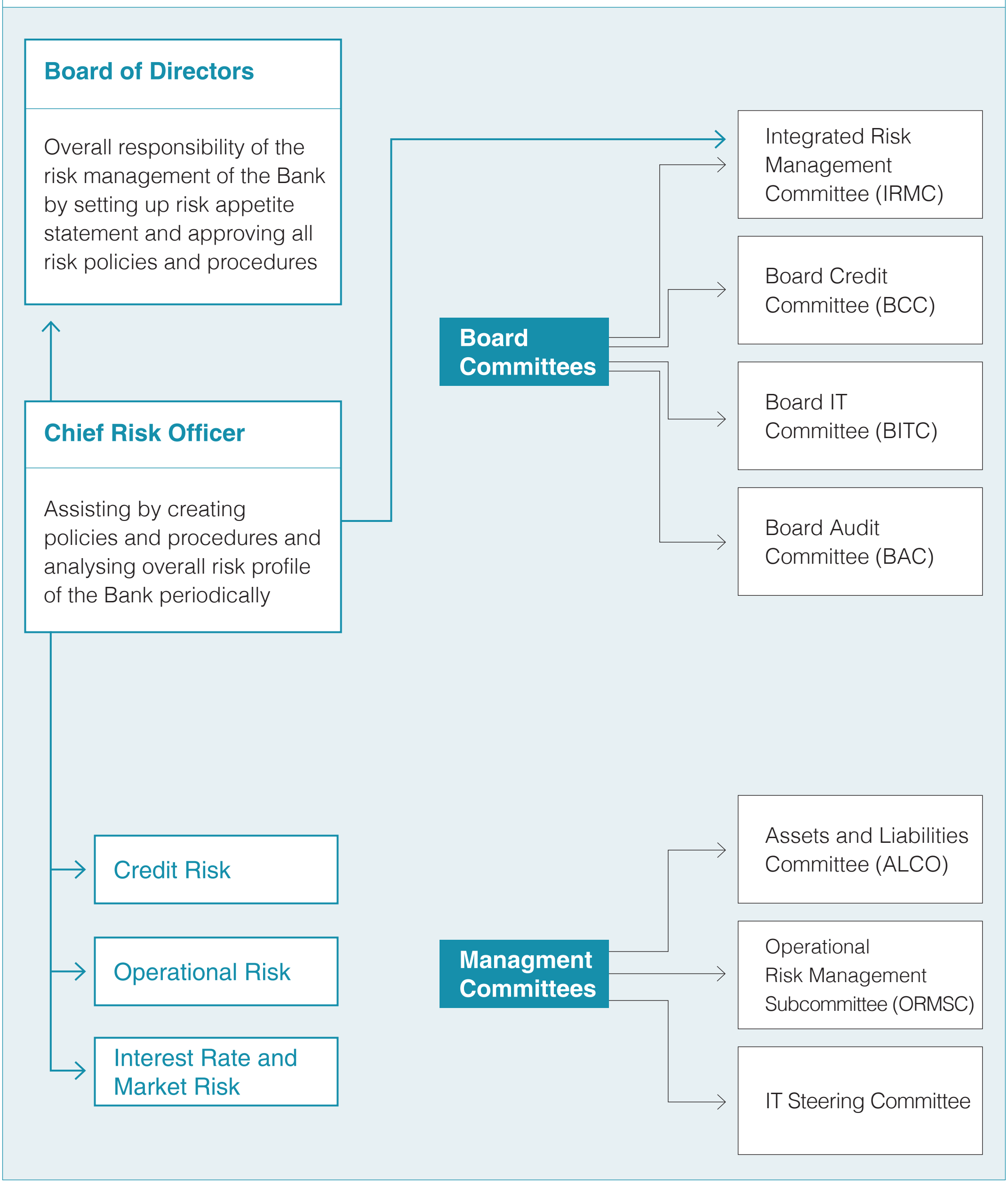
The BIRMC is the committee chaired by the Executive Director and supported to make decisions on Bank risk management frame work. The committee gives recommendation on the Bank's overall risk profile and recommended the risk management policies, procedures and Internal Capital Adequacy Assessment Process (ICAAP) of the Bank. Policies procedures and the ICAAP are formulated, reviewed and presented to the IRMC by the CRO and his division in periodic manner. The **BAC** examines the internal control and regulatory compliance of the Bank on behalf of the Board of RDB. The committee also accesses the performance, accuracy and independence of the internal audit of the Bank.

The **MC** is the committee which is headed by the GM/CEO of the Bank and representing all executive level persons of the Bank. The committee convenes periodically and whenever necessary. The committees review the reports from all operational levels of the Bank to mitigate the risk and uncertainty periodically.

CRO (Chief Risk Officer) is an independent person who has the responsibility of assisting the BOD and IRMC about the overall risk management of the Bank and risk management techniques.

RMD (Risk Management Department) which is headed by the CRO has three separate function of risk management credit risk, operation risk and the market and interest rate risk.

Risk Governance Structure



Banking is a business exposed to various types of risk from its inherent. The main and most obvious risks the banks generally face are credit, market and operational risks. However, developments in technology and regulation and financial crises in the recent past have awakened the banks to a multitude of other risk categories like strategic risk, compliance risk, legal risk, reputation risk etc. In the circumstances, today every banking institution tends to give high consideration to their risk culture and risk management practices. In this section we have analysed the main financial and non-financial risk that RDB is exposed to.

Credit risk profile

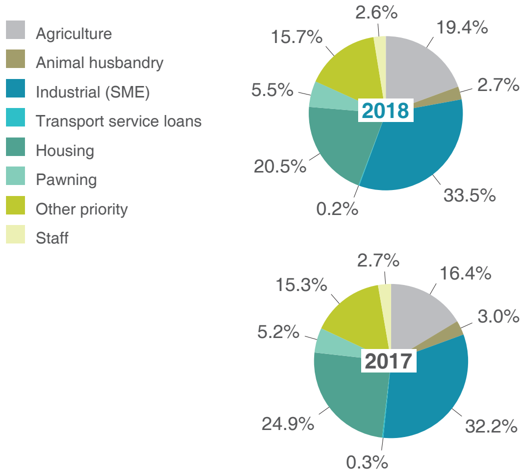
Credit risk is the risk associated with the loss of principal or the loss of a financial reward, stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Credit risk exposure from lending activities

As a development bank granting loans and advances is the core business of RDB hence credit risk is the most material risk. Mainly credit risk is arising from SMEs and Retail loans and advances. Due to the materiality of the Bank's loan book, RDB has maintained a well-diversified credit portfolio with the Agriculture Loan, Animal Husbandry Loan, Industrial Loan (SME), Trading and Services Loan, Housing Loan, Pawning, Consumption Loan and Loans against Deposits.

In 2018, the Bank maintained a rising trend in lending portfolio, which is an LKR 137.77 Mn. and 6% increase from 2017 to 2018. The Bank's credit portfolio consists 729 loan facilities over 5 Mn. category and top 10 borrowers contribute to 0.49% to the total advance portfolio. RDB being a development Bank, credit is the major business.

Breakdown of net credit exposure by sector-wise



Governance structure

RDB's Credit Risk Management Policy approved by the Bank's Board of Directors is the main guideline for Credit Risk Management. The policy encompasses all policies and procedures and methods to identify, manage and mitigate the credit risk. The policy is reviewed regularly by the Board of Directors and updated throughout the year to ensure consistency with the Bank's credit policy and corporates and business strategy.

Board level committees and the Management level committees are also engaged with credit risk governance of RDB. The Board Credit Committee Chaired by the Chairman of the Board and the Management Credit Committee Chaired by the Chief Executive Officer.

Credit system

The Bank's credit system provides the basis for an efficient and effective credit appraisal process. Individual, SME and corporate customers are promoted at ground level by the branch managers and credit officers. According to the sectorial limits and the delegated authority limit these credit facilities are approved by the relevant officers. The RDB currently used manual credit appraisal and approval process. Moreover the Bank is on the process of implementing automated credit appraisal process in future. The delegated credit approval structure and the credit management system ensures efficient administration.

Credit management processes

Following steps are followed by the RDB for effective credit risk management and monitoring:

- Loan origination and risk appraisal
- Credit approval and sanction
- Credit administration and disbursement
- Credit measurement, monitoring and reporting
- Recoveries

Loan origination and risk appraisal

The ground/branch level managers and credit officers granted loan facilities to individuals, SME's and corporate clients based on the given circulars and guidelines. All directions are accordance with the Bank credit policy, Credit risk management policy and the Central Bank guidelines.

Credit approval and sanction

The Bank has specific delegated authority levels to approve credit facilities. Normally, credit proposals are analysed by experienced credit officers and handed over to the relevant approval authority level. However, high value credit proposals are approved by the Credit Committee and the Board of Directors. At present, loan proposals which exceed authority level of the Deputy General Manager – Credit and Recovery are subject to an independent evaluation by the CRO. The Bank continued with the structured, evaluating and approving process introduced in 2014 and it immensely contributed to the Bank's credit portfolio risk management.

Credit administration and disbursement

In view of increasing administration process of the credit portfolio, in March 2016 the Bank established the Credit Administration Unit which is headed by Senior Assistant General Manager under the Risk Management Division as an independent unit. The unit is responsible to monitor credit security documents and review all loans above 2.5 Mn. and above as a pre and post-sensation evaluation process.

Credit measurement, monitoring and reporting

The loan portfolio is closely monitored by branch manager/loan officers and individual credit facilities at ground level (branch level) through daily customer analysis and recovery processes. However, at Head Office level, Risk Management Department analyses the credit portfolio of the Bank and reports to the Board of Directors under the KRI (Key Risk Indicators) Report with independent observations on a monthly basis. The KRI Report includes Total Credit Portfolio Analysis, NPA Analysis, and Loan Provisioning Analysis etc. Risk Management Division closely monitors the Bank's top 20 borrowers and top 10 NPA customers on a monthly basis and reports to the Board of Directors. Following mitigations techniques and approaches are used by RDB to manage quality credit portfolio.

Delegated approving authority

The Bank has specific delegated authority levels to approve credit facilities. Normally, credit proposals are analysed by experienced credit officers and handed over to the relevant approval authority level. However, high value credit proposals are approved by the Credit Committee and the Board of Directors. At present, loan proposals which exceed authority level of the Deputy General Manager – Credit and Recovery are subject to an independent evaluation by the CRO. The Bank continued with the structured evaluating and approving process introduced in 2014 and it immensely contributed to the Bank's credit portfolio risk management.

Loan Review Mechanism (LRM)

Since 2017, RDB has established a comprehensive LRM to maintain a quality loan portfolio. Loan review policy of RDB establishes a common framework for Loan review mechanism to improve qualitative and quantitative credit administration. The Review should cover all performing loans above the threshold limit, which should be more than 40% of the loan portfolio of the Bank. The threshold limit should be decided/approved by the Board of Directors with the recommendation of the Credit Committee.

Risk rating model

The Bank has introduced the credit rating since August 2016. Nine (9) rating grades from AAA to C have been defined based on bank specific format. The rating "AAA" implies a very high credit worthiness and very low expectation of credit risk and "C" implies vice versa. According to the directions given in the circular customer who has below BBB rating is not eligible for a credit facility from the Bank.

Risk-based pricing

RMD introduced a risk-based pricing for credit facilities of the Bank since 2016. The Bank has adjusted the price of the facility-based on the customer risk rating. This pricing system is applied to facilities considered under Bank funds only and other facilities considered under refinance schemes are exempted from the risk-based pricing.

Loan loss provisioning (impairment provisions and CBSL provision)

To comply with the accounting standard of Sri Lanka currently the Bank has calculated impairment for loan loss base on the two methods:

- Individual impairment
- Collective impairment

Since year 2018, RDB adapted SLFRS 9 for the loan impairment, now the Bank is in the process of implementing the system/model for SLFRS 9.

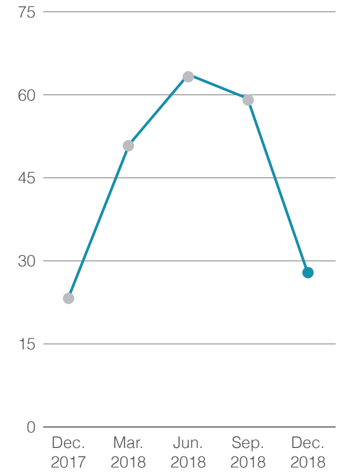
According to the Central Bank (CBSL) Guidelines, the Bank follows two types of provisioning methods. Provisioning categories are:

- General Provision (according to Central Bank Guidelines)
- Specific Provision (according to Central Bank Guidelines)

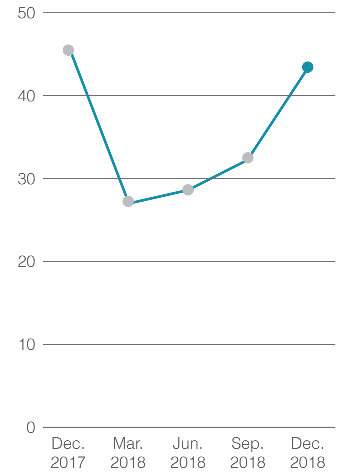
Provision cover ratio and the open credit exposure ratio of the Bank are calculated and analysed by the Risk Management Department periodically. The Risk Management Department submits these ratios together with its observations to the Board of Directors on a monthly basis.

As of end of December 2018, the open credit exposure and the provision cover ratios of the Bank were as follows:

Open loan exposure (%)



Provision cover ratio (%)

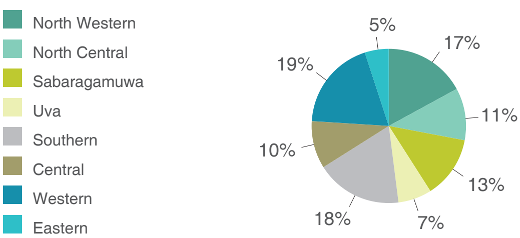


Concentration risk

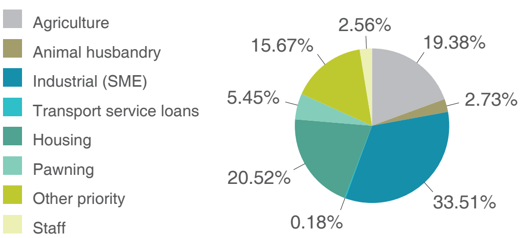
The monitoring of credit concentration is a very important part of the credit risk monitoring process. The Bank has established approved sectorial limits for credit through credit risk management policy. Risk Management Department of RDB periodically approved these limits according to the economic and industry standards. Business units manage their individual credit portfolio according to these sectorial limits. The Bank has managed the concentration risk on each sector, product and geographically based on periodic reviewed sectorial limits.

Methodology based on indexing techniques such as the Herfindahl-Hirschman Index (HHI), analysis of sectorial limits, internally developed limit models and stress tests are applied to measure and monitor credit concentration in the Bank's loan portfolio.

Geographical concentration



Sector-wise concentration



Liquidity risk profile

It is the risk that a Bank encounters difficulties in meeting its financial commitments that are settled by delivering cash or other financial assets.

RDB manages liquidity risk in accordance with regulatory guidelines, international best practices, industry best practices and internal control limits. The Bank has a Board approved liquidity policy to manage liquidity on a day-to-day basis and in long time. It is the Bank's policy to maintain the liquidity position above the regulatory requirement of 20% on Statutory Liquid Assets Ratio – (SLAR) and above 90% of Liquidity Coverage Ratio (LCR) in line with the regulatory requirement. To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities on an ongoing basis.

Governance structure

The main responsibility of managing the Bank's liquidity lies with the Assets and Liabilities Management Committee (ALCO). ALCO is an Executive Level Committee consisting of the Bank's Corporate and Executive level employees. The Committee meets at least once a month or more frequently on a need basis. In addition to ALCO Committee decisions RMD of the Bank monthly analysis the maturity gap of assets and liabilities, liquidity ratios under flow and stock approach to manage the day-to-day. Moreover, RMD carried liquidity stress tests out to assess the impact of extreme events under three scenarios. RMD has informed to the Board of Directors on liquidity positions and their suggested remedies through BIRMC on quarterly basis and through KRI on monthly basis.

Liquidity risk management process

RDB manage sound liquidity position by periodically analysing its statutory liquidity ratios and other liquidity ratios under stock approach and the flow approach

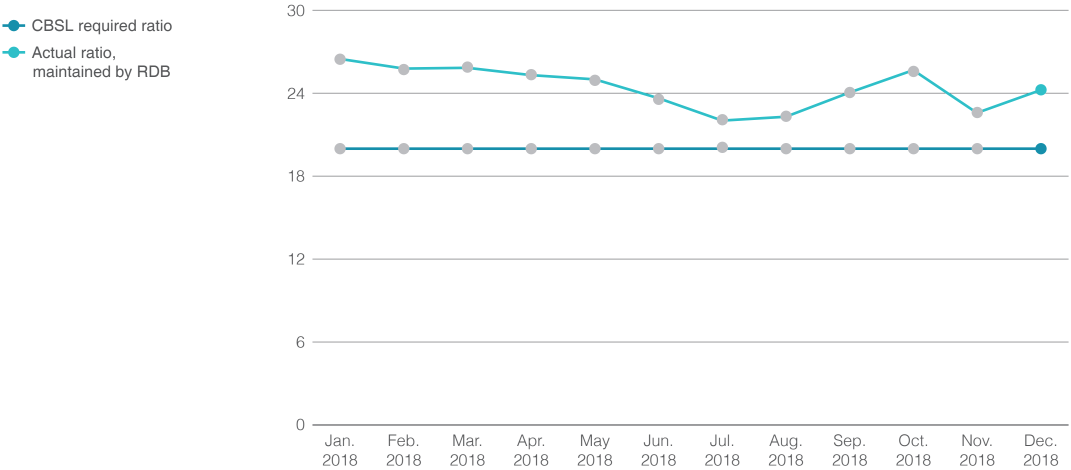
Regulatory ratios

According to the regulatory requirements the Bank has used mainly two ratios to measure the liquidity risk of the Bank.

Statutory Liquid Assets Ratio – (SLAR)

RDB has maintained its liquid assets to Statutory Liquid Assets Ratio above the regulatory requirement of 20%.

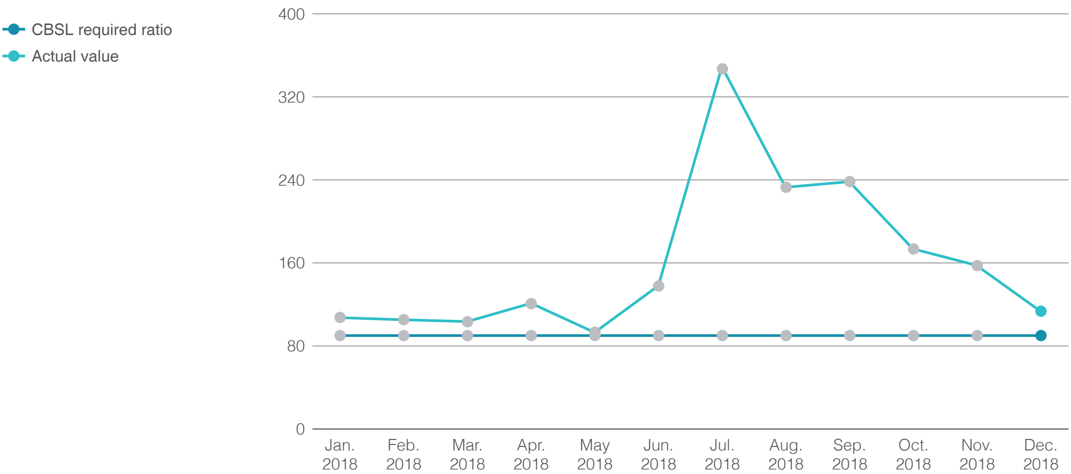
Required vs actual liquid assets ratio of the Bank as at end of December 2018



Liquidity Coverage Ratio (LCR)

RDB has also adhered to the CBSL direction of Liquidity Coverage Ratio (LCR) in the year 2016. The Bank has maintained LCR ratio of 113% as at end of December 2018 it is above the minimum regulatory requirement of (90%).

Required vs actual liquid coverage ratio of the Bank as at end of December 2018

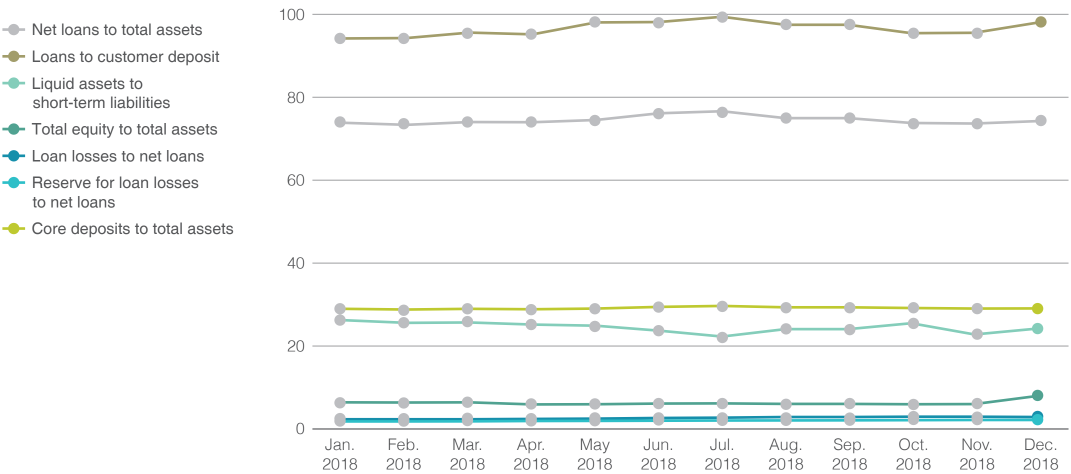


Stock approach

RDB have calculated and analysed the following key ratios to measure liquidity risk under the above stock approach:

- Net loans to total assets
- Loans to customer deposit
- Liquid assets to short-term liabilities
- Core deposits to total assets
- Total equity to total assets
- Loan losses to net loans
- Reserve for loan losses to net loans

Trend of key ratios under stock approach



According to analysis of ratios the Bank has maintained sound liquidity position during the year 2018.

Stress testing on liquidity

The Risk Management Department regularly carries out a stress testing on Bank Liquidity under three scenarios, which is related to different severity conditions. Every month, the department evaluates the result of the stress testing and measures the possible impacts of unexpected situations on liquidity of the Bank. According to the result of stress testing, the Board of Directors is informed by the Risk Management Department on appropriate course of action and funding arrangements for such situations through ALCO.

All figures in LKR '000

Details	Balance as at 31 December 2018	Shocks		
		Minor	Moderate	Major
Magnitude of shock %		2	4	6
Liquid assets	34,264,681	34,264,681	34,264,681	34,264,681
Total liabilities	141,152,826	141,152,826	141,152,826	141,152,826
Value fall on total liabilities		2,823,057	5,646,113	8,469,170
Revised total liabilities after shock		138,329,769	135,506,713	132,683,656
Revised liquid assets after shock		31,411,624	28,618,568	25,795,511
Statutory liquid assets ratio %	24.27	22.73	21.12	19.44

Operational risk profile

Operational risk is an expression of danger from unexpected direct or indirect losses, resulting from inadequate or failed internal processes, people and systems and external events, caused by credit or market.

Total client base of the Bank presently exceeds 6 Mn. people which represent nearly 20% of the population of the island. The Bank today has 273 branches covering the entire country including branches in the North and the East. RDB is the third largest Bank in the country in terms of the number of branches and currently operate with more than 3,000 staff members. Hence RDB has exposed various operational lapses in present.

During the period under review, RDB has improved its staff base through new recruitment and rapidly introduce new information technology solutions for the operational activities such as CDM, ATM etc. and also implemented a new Human Capital Management System (HCM). Moreover the Bank is in the process of merging Lankaputhra Development Bank with RDB for the purpose of increasing Bank's capital to comply with the Basel accord.

Governance structure

The Bank has Board approved operational risk policy and it is annually reviewed by the Operational Risk Management Department attached to RMD. This is main guidance for the Bank operational risk management. The Operational Risk Management Unit under RMD has the responsibility to analyse and identify the day-to-day operational risk issues and submitted periodic report of operational loss on monthly KRI and inform to the Board of Directors on operational lapses.

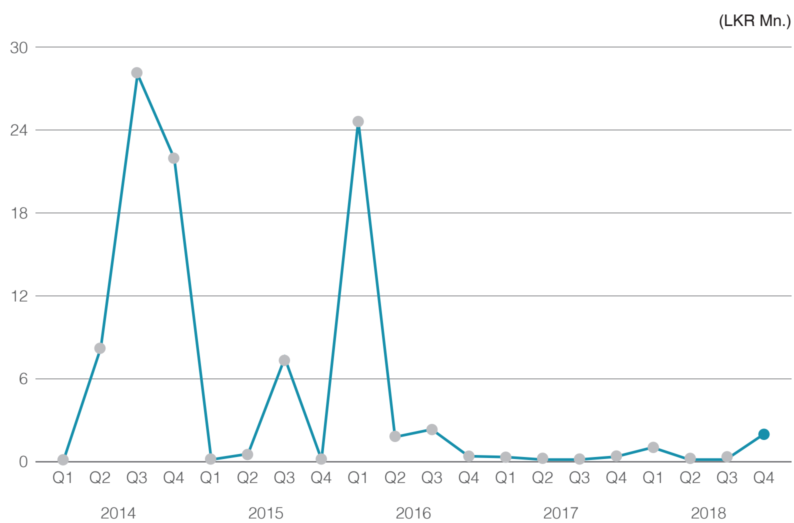
Operational Risk Management Subcommittee is a managerial subcommittee to access the Bank operational lapses. Since 2012, RMD has established an Operational Risk Subcommittee under the supervision of Chief Risk Officer of the Bank. The committee meets at least monthly and submits a report quarterly to the IRMC for their assessment. This covers all aspects of operational issues in RDB.

Operational risk management process

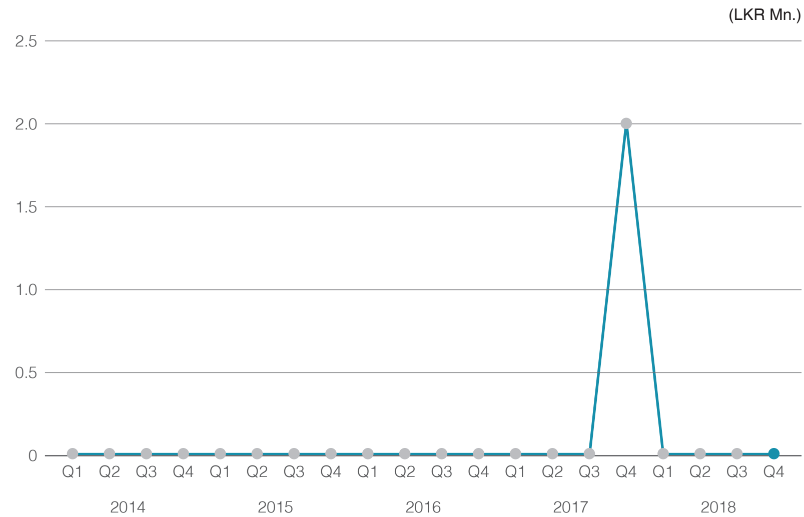
Loss data reporting

RMD has involved with the loss of data capturing and reporting processes since 2012. All losses reported to the investigation unit are recorded by the RMD and every quarter, loss data which exceeded the threshold limit of LKR 500,000.00 are reported to the Central Bank. The Bank has maintained a database related to various types of loss data.

Trend of internal fraud



Trend of external fraud



Business Continuity Plan (BCP)

The Bank finalised its Business Continuity Plan (BCP) during the year 2015. Since 2016, it has performed to cover all the branches and head office of RDB. Main responsibility of operating BCP is under the Operational Department. Time to time the Bank has organised a trial testing on BCP.

Information Security Management System (ISMS)

Since the year 2015, the Information Security Management System (ISMS) function is in operation under the supervision of Chief Risk Officer of the Bank. Approved information security and acceptable usage policies are in force and reviewed periodically.

Interest rate risk profile

The exposure of the Bank's financial condition to adverse movements in interest rates is known as the Interest Rate Risk. Changes in interest rates can have significant impact on the Bank's earnings as well as the underlying economic value of Bank assets, liabilities and off-balance sheet items.

According to the Interest Rate Risk Management Policy approved by the Board, ALCO is responsible to determine the interest rates based on gap and duration analysis of the Bank. Based on this analysis, Risk Management Department will carry out risk assessment on the interest rate fluctuations. However, at present ALCO determines interest rates for both lending and deposits based on the market conditions and credit deposit ratio due to system limitations.

Compliance risk management

The Management of the Bank places great emphasis on ensuring that the Bank is moving in concurrence with its statute and the rules and regulations imposed by the monetary authority as well as the other legal/Government entities in order to avoid failures or breaches of such obligations towards the Bank.

The key objectives of the Compliance Officer are to ensure that the internal controls/ regulatory requirements are complied with the standard levels. The Bank's compliance function falls under the purview of the IRMC headed by AGM Compliance. In order to achieve this objective he monitors and assesses the compliance requirements and submits quarterly reports on the compliance status of the Bank to the IRMC for review. There is a comprehensive Board approved compliance policy which is reviewed annually. The Compliance Officer also overlooks the timely submission of necessary statutory reports of the Bank to the regulator.

During 2018, the Compliance Division of RDB has followed several activities to ensure the sound compliance management:

- Conduct compliance assessment on sample branches and head office and regional level divisions periodically.
- Conduct compliance training and awareness programme at regional and head office level on Regulatory Environment at banking operations.

Legal risk management

Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law and regulation apply to your business, its relationships, processes, products and services. Basel accords classified legal risk as part of operational risk in 2003.

Responsibility to manage legal risk of RDB lies with the Chief Legal Officer. There is a Legal Division and the panel of lowers attach to the Legal Division which is headed by the Chief Legal Officer.

Legal Division of RDB has engaged in the following duties for the sound management of legal risk:

- Ensuring the legality of all security documents and other contractual obligation when disbursing loan facilities to the third party.
- Ensuring legality of the contractual relationship with third party transactions e.g, procurement.
- Ensuring applicability of Banking Act and other relevant laws in the operational process.
- Ensuring the applicability of labour law when handing labour forces of RDB.

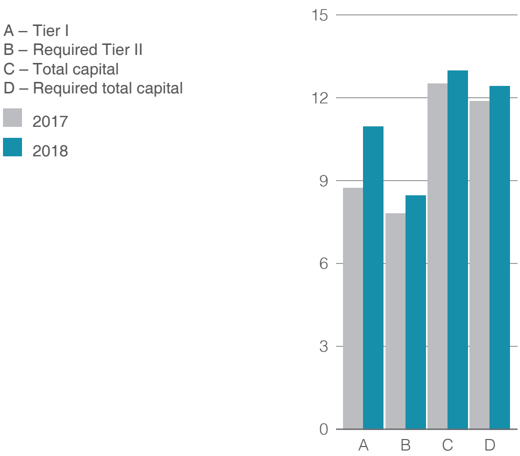
Capital management

RDB has managed its capital based in line with the Central Bank direction and international Basel III Accord.

Minimum capital requirements according to the Central Bank Direction No. 1 of 2016 Licensed Commercial Banks and Licensed Specialised Banks should be complied with the minimum Capital Requirements under Basel III commencing from 1 July 2017 and reached to the required level in 1 January 2019. According to the direction we have to achieve following minimum capital requirements:

Components of capital	1 July 2017 %	1 January 2018 %	1 January 2019 %
Common equity Tier I including capital conservation buffer	5.75	6.375	7.00
Total Tier I including capital conservation buffer	7.25	7.875	8.50
Total capital ratio including capital conservation buffer	11.25	11.875	12.50

Capital management



The Bank has to reach the regulatory requirement according to the Basel III Accords in 1 January 2019 hence the Board of Directors approved the following actions to strengthen the capital base of the Bank since year 2017:

1. To call for additional infusion of capital from the existing shareholders as per the Pradeshiya Sanwardana Bank Act. This does not allow a new investor to come in as a shareholder.
2. To issue debentures. The Board has approved to raise capital through a debenture issue of up to LKR 2 Bn. in year 2017.
3. Merging Lankaputhra Development Bank with RDB.

The Bank has received a capital infusion of LKR 2.5 Bn. from the General Treasury in December 2017.

The Board and the Management is also conscious on the NPA movement of the credit portfolio which affects the capital adequacy of the Bank. Hence, periodic stress testing is being done by the Risk Management Department as per the approved stress testing policy guidelines of the Bank and the results are being notified to the Board through IRMC on a quarterly basis.

The results of the stress testing for the year 2018 are as follows:

Non-performing advance portfolio	Original CAR %	Scenario 1 %	Scenario 2 %	Scenario 3 %
Magnitude of the shock		2	3	4
Directly to loss category	13.61	13.58	13.56	13.54
Shift of shock within all categories	13.61	13.59	13.58	13.56

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මගේ අංකය / எனது இல. / My No. BAF/F/RDB/CG/2018 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 25 June 2019

The Chairman,
Pradeshiya Sanwardhana Bank

Auditor General's Report of Factual Findings of Pradeshiya Sanwardhana Bank to the Board of Directors of the Pradeshiya Sanwardhana Bank on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka.

I have performed the procedures enumerated in Annexure to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL). This engagement has been performed in accordance with the principles set out in Sri Lanka Standard on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directive.

I report my findings in the attached Annexure to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards, I do not express any assurance on the compliance with directives of Corporate Governance issued by CBSL.

Had I performed additional procedures or had I performed an audit or review of the Financial Statements in accordance with Sri Lanka Auditing Standards, other matters might have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.

This report relates only to the items specified above and does not extend to any Financial Statements of, Pradeshiya Sanwardhana Bank taken as a whole.

W P C Wickramarathne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව | இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை | No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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Annexure to the report on factual findings

	The responsibilities of the Board	Level of Compliance
3 (1)		
3 (1) (i)	Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the Bank.	
	(a) The Board approval, the Bank's strategic objectives and corporate values.	Partially complied with; The strategic objectives of the Bank have been approved by the Board. At the end of year 2017, actual performance of the Bank has been exceeded the projected business objectives of the Corporate Plan. Therefore, Corporate Plan has been revised during the year 2018 and it has been approved by the Board. However, above Corporate Plan forecasts only up to year 2020.
	Whether the Bank has communicated the Bank's strategic objectives and corporate values throughout the Bank.	It has been communicated to staff through awareness meetings and circular instructions.
	(b) The Board approval of the overall business strategy of the Bank.	Complied with; The Board approved Corporate Plan includes the overall business strategy of the Bank for the period 2016-20.
	The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	The overall risk policy and risk management procedures of the Bank have been documented and reviewed by the Integrated Risk Management Committee.
	The overall business strategy contains measurable goals, for at least the next three years.	However, measurable goals in the Corporate Plan forecasts only up to year 2020.
	(c) The appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	Complied with; A continuous and prudent assessment process is in place to identify, assess and to manage the risk. The Policies and procedures have been structured and which are approved and reviewed by the Integrated Risk Management Committee. Also, the risk appetite statement has been prepared to determine the tolerance limits.
	(d) The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied with; A Board approved communication policy is in place and it has been reviewed periodically. All levels of the Management are responsible for the implementation and closely monitoring of policy.
	(e) The Board has reviewed the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with; All Key Management Personnel are responsible on the monitoring of internal control system of the Bank. Further, Internal Audit Department assesses the adequacy and integrity of the internal control system and management information system of the Bank and report to the Board Audit Committee. Those reports are reviewed by Board Audit Committee.

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The responsibilities of the Board	Level of Compliance
(f) The Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with; The Board has identified Key Management Personnel of the Bank.
(g) The Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the key management personnel;	Complied with; The Board Charter defines the areas of authority and key responsibilities for the Board of Directors themselves. The areas of authority and key responsibilities of the Key Management Personnel have been documented in relevant Job Descriptions.
(h) The Board has exercised appropriate oversight of the affairs of the Bank by key management personnel, that is consistent with board policy;	Complied with; The Board has exercised appropriate oversight of the affairs of the Bank through Board and Board Subcommittees. Key Management Personnel are also called by the Board to explain matters relating to their respective areas.
(i) The Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including: (i) the selection, nomination and election of Directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Partially complied with; Self-Assessment forms of Board of Directors were available.
(j) The Board has a succession plan for key management personnel.	Partially complied with; Board approved succession policy is in place. However, up-to-date succession plan is not available.
(k) The Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with; The Board conducts meetings regularly to discuss and review the progress of corporate objectives and invite Key Management Personnel whenever necessary. Also the action plan prepared for the commencing year had been discussed with the KMP.
(l) The Board has taken measures and processes in place to understand the regulatory environment and that the Bank maintains a relationship with regulators.	Complied with; The Board is highly concerned on the regulatory environment and update on the changes and maintain relationship with regulators.
(m) The Board has a process in place for hiring and oversight of external auditors.	Not applicable; Under Section 33 of the Pradeshiya Sanwardhana Bank Act, Auditor General is the External Auditor of the Bank.

	The responsibilities of the Board	Level of Compliance
3 (I) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO).	Complied with; The Chairman has been appointed by Hon Minister with consultation to the Treasury. General Manager is appointed by the Board with the concurrence of the Secretary to the Treasury.
	The functions and responsibilities of the Chairman and the CEO are in line with Direction 3 (5) of these Directions.	The Chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business. However, Chairman involves in the signing of agreements, bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018.
3 (I) (iii)	The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	Partially complied with; Generally, the Board meets monthly and special meetings are conducted additionally as on the necessity. However, 10 meetings have been held during the year 2018 and Board meetings were not held during the period from 28 April 2018 to 16 September 2018 due to non-appointment of Board.
3 (I) (iv)	The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with; Regular Board meetings are scheduled monthly and Directors are noticed on scheduled date of the next meeting well in advance, enabling them to include matters and proposals.
3 (I) (v)	That the Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	Complied with; As a practice, notice of monthly Board meetings provide to the Directors 7 days prior to the meeting date.
3 (I) (vi)	The Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate director, however, to be acceptable as attendance.	Complied with; There were no occasions observed on not attending more than two-third of Board meetings or immediately preceding three consecutive meetings.
3 (I) (vii)	The Board has appointed a Company Secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with: A Board Secretary has been appointed by the Board as defined by Section 43 of the Banking Act No. 30 of 1988.
3 (I) (viii)	The process to enable all Directors to have access to advice and services of the Company Secretary.	Complied with: All Directors have access to advice and service of the Board Secretary.

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	The responsibilities of the Board	Level of Compliance
3 (I) (ix)	The Company Secretary maintains the minutes of Board meetings and there is a process for the directors to inspect such minutes.	Complied with; The Board Secretary maintains minutes of Board meetings which are available for any Director for inspection.
3 (I) (x)	The minutes of a Board meeting contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (h) the decisions and Board resolutions.	Complied with; Board Minutes will cover the following requirements, (I) Discussions on Financial progress and achievements. (II) Business decisions taken on particular subjects. (III) Resolutions passed on special subjects. (IV) Progress instructions and matters directed to management. (V) Policy decisions on matters and review of performances. (VI) Highlights and recommendations on Board Subcommittees. (VII) Other contemporary matters discussed. (VIII) Findings and Assessments of Compliance, Risk and Audit.
3 (I) (xi)	There are procedures agreed by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied with; The Board approved procedure to seek independent professional advice is available.
3 (I) (xii)	There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoids conflicts of interests, or the appearance of conflicts of interest. A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested.	Complied with; When a resolution is passed at the Board meetings regarding a particular matter on which Directors are personally interested, he/she abstained from voting for the resolution.
	Has he/she been counted in the quorum for the relevant agenda item at the Board meeting.	The interesting Director does not count in the quorum for the relevant agenda item at the Board meeting.
3 (I) (xiii)	The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the Bank is firmly under its authority.	Complied with; A schedule of matters reserved for Board's decisions is included in the agenda to ensure Board's contribution in the decision-making process to make the ultimate decisions.
3 (I) (xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action, if it considers that the procedures to identify when the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Not applicable; Although, such a situation has not arisen, the Board is aware of the necessity 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 payment to its depositors and other creditors.

	The responsibilities of the Board	Level of Compliance
3 (I) (xv)	The Board has the Bank capitalised at levels as required by the Monetary Board.	Partially complied with; Bank has maintained the minimum level of capital adequacy as at 31 December 2018 as determined by the monitory Board. However, some occasions were reported below the required level.
3 (I) (xvi)	The Board publishes, in the Bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with; The Annual Report includes the Corporate Governance Report which discloses the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka.
3 (I) (xvii)	The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.	Partially complied with; Self-Assessment forms of Board of Directors were available.

3 (2) The Boards' Composition

3 (2) (i)	Board comprise of not less than 7 and not more than 11 Directors.	Complied with; Board comprises with 7 Directors as at 31 December 2018.
3 (2) (ii)	(A) The total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied with; None of the Directors have completed nine years as described in the direction.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Not applicable.
3 (2) (iii)	The number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied with; All the Directors are Non-Executive Directors except Executive Director and Working Director.
3 (2) (iv)	The Board has at least three independent non-executive directors or one third of the total-number of directors, whichever is higher. Check if non-executive directors can be considered independent if he/she:	Partially complied with; There were two Independent Non-Executive Directors in the Board as at 31 December 2018. According to the PSB Act No. 41 of 2008, four Directors are being appointed by shareholder Banks and the General Treasury.
	(a) Holds a direct and indirect shareholdings of more than 1 per cent of the Bank;	Not applicable.
	(b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank.	Not applicable.
	(c) has been employed by the Bank during the two-year period immediately preceding the appointment as director;	Not applicable.
	(d) has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the Bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child);	Not applicable.

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	(e) represents a specific stakeholder of the Bank.	Not applicable.
	(f) is an employee or a Director or a material shareholder in a company or business organisation: (I) which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the Bank; or (II) in which any of the other Directors of the Bank are employed or are Directors or are material shareholders; or (III) in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank.	Not applicable.
3 (2) (v)	In the event an alternate Director was appointed to represent an independent Director, check the person so appointed meet the criteria that applies to the independent Director.	Not applicable; No provisions for appointing alternate Directors as on the Act No. 41 of 2008.
3 (2) (vi)	The Bank has a process for appointing independent Directors.	Not applicable; All Directors are appointed by the Hon. Minister in consultation with Secretary of the relevant Ministry.
3 (2) (vii)	That the stipulated quorum of the Bank includes more than 50% of the Directors and out of this quorum more than 50% should include non-executive Directors.	Complied with; The quorum (as determined by Section 16 of the Act) includes 5 if the Board consisted with 7 Directors and 6 if the Number of Directors over 8. More than 50% of the quorum represents Non-Executive Directors.
3 (2) (viii)	The Bank discloses the composition of the board, by category of Directors, including the names of the chairman, executive Directors, non-executive Directors and independent non-executive Directors in the annual corporate governance report.	Complied with; Composition of the Board, by category of Directors is disclosed in the Annual Report.
3 (2) (ix)	The procedure for the appointment of new Directors to the Board.	Not applicable. All Directors are appointed by the Hon. Minister in consultation with Secretary to the Treasury.
3 (2) (x)	All Directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Not applicable; All appointments and removal of Directors are done by the Hon. Minister in consultation with Secretary to the Treasury.

	The responsibilities of the Board	Level of Compliance
3 (2) (xi)	If a Director resigns or is removed from office, the Board: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with; All appointments and removal of Directors are done by the Hon. Minister in consultation with Secretary to the Treasury. Resigning Director acknowledges his/her resignation through a letter to the Bank and based on that letter the Bank informs to the Ministry regarding relevant Director's resignation.
3 (2) (xii)	Check if there is a process to identify whether a Director or an employee of a bank is appointed, elected or nominated as a Director of another bank.	Complied with; Such situation will not be arisen since the Directors are been appointed by Hon. Minister in consultation with Secretary to the Treasury. Also the Central Bank of Sri Lanka assesses Fitness and propriety based on the on declarations obtained from Directors and Key Management Personnel.

3 (3) Criteria to assess the fitness and propriety of Directors

3 (3) (i)	The age of a person who serves as Director does not exceed 70 years.	Complied with; No any Director comprises in the Board who are over 70 Years.
	(A) The transitional provisions have been complied with	Not applicable.
3 (3) (ii)	If a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the Bank.	Complied with; None of the Director holds directorship in 20 companies as on their declarations.

3 (4) Management functions delegated by the Board

3 (4) (i)	The delegation arrangements have been approved by the Board.	Complied with; The Board has delegated matters pertaining to the affairs of the Bank to the Board Subcommittees and also to CEO and other Key Management Personnel.
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	Complied with; Board takes the responsibility for the matters in 3 (1) (i) even though such matters are delegated.
3 (4) (iii)	The Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with; The Board reviews and approves the delegation process on periodic basis. Approval limits have been determined towards the authority level accordingly.

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	The responsibilities of the Board	Level of Compliance
3 (5) The Chairman and CEO		
3 (5) (i)	The role of Chairman and CEO is separate and not performed by the same individual.	Complied with; The positions of the Chairman and the CEO have been separated and held by two individuals. The Chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business. However, Chairman involves in the signing of agreements, bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018.
3 (5) (ii)	The Chairman is a non-executive Director. In the case where the Chairman is not an independent Director, check that the Board designate an independent Director as the senior Director with suitably documented terms of reference. The designation of the senior Director is disclosed in the Bank's Annual Report.	Complied with; Chairman is an Independent Non-Executive Director. None of the Director designated as Senior Director.
3 (5) (iii)	The Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and Board members and the nature of any relationships including among members of the Board.	Complied with; Annual declarations provided by Directors help to identify such relationships.
3 (5) (iv)	The Board has a self-evaluation process where the Chairman: (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.	Partially complied with; Self-Assessment forms of Board of Directors were available.
3 (5) (v)	A formal agenda is circulated by the Company Secretary approved by the Chairman.	Complied with; The agenda for each Board meeting is prepared and circulated by the Board Secretary in consultation with Chairman and CEO.
3 (5) (vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	Complied with; Matters to be taken up for discussions in Board meetings are circulated with the Notice of the Meeting at least 7 days prior to the meeting other than urgent matters.

	The responsibilities of the Board	Level of Compliance
3 (5) (vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the Chairman taking the lead to act in the best interest of the Bank.	Partially complied with; Self-Assessment forms of Board of Directors were available.
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of non-executive Directors.	Partially complied with; Self-assessment forms of Board of Directors were available.
3 (5) (ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with; Chairman is a Non-Executive Director and does not get directly involved with supervision of Key Management Personnel. However, Chairman involves in the signing of agreements, bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018.
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with; As per the Pradeshiya Sanwardhana Bank Act No. 41 of 2008 four ex-officio members who represent three share holder Banks and the General Treasury were appointed to the Board. They act as a channel between the Board and the shareholders.
3 (5) (xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with; The CEO is the executive in charge for day-to-day management of the Bank which supported by the Key Management Personnel on operations and business and reports to the Board.

3 (6) Board appointed committees

3 (6) (i)	The Bank has established at least four Board committees as set out in Directions 3 (6 (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Check that each Board committee report is addressed directly to the Board. The Board presents in its annual report, a report on each committee on its duties, roles and performance.	Complied with; The Bank has established following Board Subcommittees which directly report to the Board as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. A report on each committee on its duties, roles and performance includes in the Annual Report.
3 (6) (ii)	Audit Committee: (a) Chairman of the Audit Committee is an Independent Non-Executive Director possesses qualifications and experience.	Not complied with; The Chairman of the Audit Committee is the Director appointed by the General Treasury. Since the majority of share capital is owned by General Treasury, above director is not independent.

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(b) All members of the committee are non-executive Directors.	Complied with; All the members of the committee are Non-Executive Directors.
(c) The committee has made recommendations on matters in connection with: (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the 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.	Not applicable; As per Section 33 of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, the Auditor General is the External Auditor of the Bank. External Auditor participates to the Board Audit Committee by invitation. Implementation of Central Bank Guidelines issued to Auditors from time to time and application of relevant accounting standards are discussed in the meetings.
(d) The committee has obtained representations from the External Auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Not applicable; As per Section 33 of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, the Auditor General is the External Auditor of the Bank.
(e) The committee has implemented a policy on the engagement of an External Auditor to provide non-audit services in accordance with relevant regulations.	Not applicable; Such situation has not arisen since Auditor General is the Auditor of the Bank.
(f) The committee has discussed and finalised the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the audit commences.	Not applicable; Subsections (3) and (4) of the Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.
(g) The committee has a process to review the financial information of the Bank, in order to monitor the integrity of the financial statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements; and (v) in respect of the annual financial statements the significant adjustments arising from the audit.	Complied with; The Board Audit Committee Reviews financial statements of the Bank. This review includes quarterly and annual financial statements, major judgemental areas and changes in accounting policies related to financial statements.

The responsibilities of the Board	Level of Compliance
(h) The committee has met the External Auditors relating to any issue in the absence of the executive management with relation to the audit.	**Complied with;** Committee had meetings with the External Auditors without the executive management.
(i) The committee has reviewed the External Auditor's Management letter and the management's response thereto.	**Not complied with;** Committee has not reviewed the Management letter of year 2017 and the responses there to.
(j) The committee shall take the following steps with regard to the internal audit function of the Bank:	
I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	**Complied with.**
II. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	**Complied with.**
III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	**Complied with;** Annual Performance Appraisal Report of the Chief Internal Auditor for the year 2018 has been submitted to the Board Audit Committee.
IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	**Complied with;** The appointment was approved by the full Board which includes members of the Audit Committee.
V. The committee is appraised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor 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;	**Complied with;** The committee appraised the performance of Head of Audit of the Internal Audit Department.
VI. The internal audit function is independent of the activities it audits.	**Complied with;** Internal audit function is independent of the activities; it audits and directly report to the Board Audit Committee. The audit findings at Operational Units being submitted to GM/CEO for referring for rectification.
(k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	**Complied with;** The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.
(l) Whether the committee has had at least two meetings with the External Auditors without the executive Directors being present.	**Complied with.**

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	The responsibilities of the Board	Level of Compliance
	(m) The terms of reference of the committee to ensure that there is: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with; The “Term of Reference” of the Audit Committee covers all these areas.
	(n) The committee has met, at least four times and maintained minutes.	Partially complied with; Three committee meetings had been held during the year 2018. However, Audit Committee meetings had not been held during the period from 28 April 2018 to 16 September 2018 due to non-appointment of Board.
	(o) The Board has disclosed in the Annual Report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	Complied with.
	(p) The Secretary of the Committee is the Company Secretary or the head of the internal audit function.	Complied with; Board Secretary is the Secretary to the Audit Committee.
	(q) The “whistle-blower” policy covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters; (ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters; and (iii) Appropriate follow-up action.	Complied with; Board approved “whistle-blower” policy is in place.
3 (6) (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	(a) The committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.	Complied with; Remuneration of Directors are governed by PED Circulars. The Committee has approved a Remuneration Policy which determines the remuneration, allowances and other financial payments to Key Management Personnel.
	(b) The goals and targets for the Directors, CEO and the key management personnel are documented.	Partially complied with; Goals and targets for the Key Management Personnel have documented through annual action plan given by each Key Management Personnel.

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	(c) The Committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically to determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Partially complied with; The Board Nomination Committee had evaluated the performance of Key Management Personnel. However, the performance evaluation belongs to independent functions such as risk, compliance and internal audit were reviewed by relevant Board Subcommittees.
	(d) The "Terms of Reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied with; "Terms of Reference" of the BHRRC provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed.
3 (6) (iv)	Does the following rules apply in relation to the Nomination Committee:	
	(a) The committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	Complied with; Appointments of Directors are done by the Hon Minister in consultation with the Secretary to the relevant Ministry. The Board appoints the CEO.
	(b) The committee has considered and recommended (or not recommended) the re-election of current Directors.	Not applicable; The Hon Minister appoints the Board of Directors in consultation with Secretary to the Treasury.
	(c) The committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	Complied with; The required qualification and experience to be eligible for selection for the posts of Chief Executive Officer, Deputy General Managers and Regional General Managers have been determined by Pradeshiya Sanwardhana Bank Act No. 41 of 2008. The approved Scheme of Recruitment and Internal Promotion indicates eligibility criteria for Key Management Personnel are available.
	(d) The committee has obtained from the Directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the Statutes.	Complied with; Declarations on fitness and propriety of the Directors, CEO and Key Management Personnel were obtained and updated annually as determined by Banking act Directions.
	(e) The committee has considered a formal succession plan for the retiring Directors and key management personnel.	Partially complied with; The succession arrangements for the Directors are being done through Ministry of Finance. Succession policy is in place to determine the mechanism of succession arrangements of the Bank. However, the succession plan for Key Management is not finalised up to now.
	(f) The committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with.

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3 (6) (v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	(a) The committee shall consist of at least three Non-Executive Directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied with; The committee consists of four Non-Executive Directors, one Executive Director, Chief Executive Officer and Chief Risk Officer. The Compliance Officer attends as an invitee for the committee.
	(b) The committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Complied with; Report on Key Risk Indicators of the Bank is prepared on a monthly basis by Chief Risk Officer and submit for the review of Board of Directors.
	(c) The committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset liability committees, and report any risk indicators periodically.	Complied with; Management level committee meeting minutes were reviewed by the BIRMC to ensure adequacy and effectiveness of committee operations. However, credit committee meeting minutes have not been reviewed by BIRMC since the above committee comprises of Board of Directors.
	(d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with; Reports on Key Risk Indicators were reviewed by the committee.
	(e) How many times the committee has met at least quarterly.	Partially complied with; Committee has met three times for the year 2018 other than the period of not having the Board of Directors.
	(f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied with; The formal disciplinary code is in place. The committee has taken decisions to recommend disciplinary action procedure related to risk matters through the committee papers.
	(g) The committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with; Report on the Key Risk Indicators of the Bank is prepared on a monthly basis by Chief Risk Officer of the Bank and submitted to the nearest Board meeting in the following month.
	(h) The committee has establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Complied with; Compliance function of the Bank is headed by the Compliance Officer and a Compliance Risk Assessment Report is submitted to BIRMC periodically by the Compliance Officer.

3 (7) Related party transactions

	The responsibilities of the Board	Level of Compliance
3 (7) (i)	There is a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's key management personnel; (e) A close relation of any of the Bank's Directors or key management personnel; (f) A shareholder owning a material interest in the Bank; (g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's directors or any of its material shareholders has a substantial interest.	Partially complied with; Board approved policy on Related Party Transaction was available. However, it has not been reviewed correctly. Transactions belongs to related parties can be captured through the system using the NIC based on the declarations.
3 (7) (ii)	There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction;	Partially complied with; Related Party Transaction Policy is in place. However, above policy covers (a) only. Bank has a process of identifying of related party transactions through system. Based on the furnished declarations of KMP, transactions can be filtered through the system.
	(a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.	
	(b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments.	
	(c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank.	
	(d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	
3 (7) (iii)	Does the Board have a process to ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the bank carrying on the same business.	Complied with; Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two-thirds of the number of Directors constituting the Board. However, no such situation has arisen during the considering period.

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	The responsibilities of the Board	Level of Compliance
	(a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-direction: I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions No. 7 of 2007 on Maximum Amount of Accommodation. II. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of five years or more;	
	(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;	
	(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;	
	(d) Providing services to or receiving services from a related party without an evaluation procedure;	
	(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.	
3 (7) (iv)	The bank has a process for granting accommodation to any of its Directors and key management personnel, and that such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with; No such occasions been reported during the year.
3 (7) (v)	(a) The bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, that steps have been taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with; The Board approved policy on Related Party Transaction cover this requirement.

	The responsibilities of the Board	Level of Compliance
	(b) where such security is not provided by the period as provided in Direction 3 (7)(v) (a) above, has the Bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	No such situations have arisen.
	(c) There is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclosed such facts to the public.	No such situations have arisen.
	(d) The process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the Bank and the accommodation was granted under a scheme applicable to all employees of such bank.	No such situations have arisen.
3 (7) (vi)	There is a process in place to identify when the Bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary Board in respect of accommodation granted as per Direction 3 (7) (v) above.	Complied with; Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two-thirds of number of Directors constituting the Board.
3 (7) (vii)	There is a process to obtain prior approval from the Monitory Board for any accommodation granted by a bank under Direction 3 (7) (v) and 3 (7) (vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary Board and any remission without such approval is void and has no effect.	Complied with; The Board approved policy on Related Party Transaction cover this area. No such occasions arisen during the period.

3 (8) Disclosures

3 (8) (i)	The Board has disclosed: (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with; Annual Audited financial statements and quarterly financial statements are prepared and published in accordance with the format prescribed by the supervisory and regulatory authorities and applicable accounting standards. Those statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.

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NAOSL

	The responsibilities of the Board	Level of Compliance
3 (8) (ii)	Check that the Board has made the following minimum disclosures in the Annual Report:	
	(a) The 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.	Complied with; The notes to the financial statements disclose that the financial statements have been prepared in accordance with Sri Lanka Accounting Standards in compliance with the requirement of the Banking Act No. 30 of 1988 and Pradeshiya Sanwardhana Bank Act No. 41of 2008 and amendments thereto.
	(b) The report by the Board on the bank's internal control mechanism that 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.	Complied with; Directors' Statement on the effectiveness of the Internal Control System over Financial Reporting is given under the "Directors' Statement on Internal Control".
	(c) The Board has obtained the External Auditor's Report on the effectiveness of the internal control mechanism referred to in Direction 3 (8) (ii) (b) above.	Complied with; The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting from the Auditor General.
	(d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with; Details of Directors have been given other than the age of Directors. Fees/remunerations paid to the Board of Directors has disclosed under Notes to the financial statements.
	(e) Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied with.
	(f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with; The aggregate value of remuneration paid to the Key Management Personnel and the aggregate value of transactions with Key Management Personnel which include accommodations granted, deposits with the Bank and relevant interest income and expenses were disclosed under Notes to the financial statements.
	(g) The Board has obtained the External Auditor's Report on the compliance with Corporate Governance Directions.	Complied with; External Auditor's Report on compliance requirements of the Corporate Governance Directions issued by the Central Bank of Sri Lanka is included in the Annual Report.
	(h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Complied with; The Directors' Report included in the Annual Report clearly sets out details regarding compliance with prudential requirements, regulations and laws and internal controls.
	(i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	Not applicable; No such direction was given as disclose to the public by the Monitory Board.

Board of Directors/Board Subcommittees composition and Directors/Committee members attendance at Board and Board Subcommittee meetings during year 2018

Name of Directors and Executive/Non-Executive/ Independent capacity	Board of Directors		Board Audit Committee			Board Integrated Risk Management Committee			Board HR and Remuneration Committee			Board Credit Committee			Board Nomination Committee			Board IT Steering Committee		
	E*	A*	S*	E*	A*	S*	E*	A*	S*	E*	A*	S*	E*	A*	S*	E*	A*	S*	E*	A*
Mr Prasanna Premaratna (Chairman)*	05	05							C	02	02	C	02	02	C	01	01			
Mr J T S P Kariyawasam (Chairman)**	04	03							C	02	02	C	02	02	C	02	02			
Mr T A Ariyapala (General Manager)	10	10					03	03		04	04		04	04		03	03		02	02
Mr A R Desapriya (Director)	10	08	C	03	03															
Mr J K Gamanayaka (Director)***	05	05	M	01	01							M	02	02						
Mr K B Wijeyaratne (Director)****	05	04	M	02	02	M	02	02				M	02	01						
Mr K B Rajapakshe (Director)	10	07				C	03	03				M	04	04				C	02	02
Mr M J P Salgado (Director)	10	09				M	03	03										M	02	02
Ms Shamara Herat (Director)*****	05	03	M	01	01				M	02	02				M	01	01			
Mr M C M Muneer (Director)******	02	02							M	01	01	M	01	01	M	01	01			
Mr Neil De Alwis (Director)*******	05	04	M	03	02	M	02	01	M	02	02				M	02	02	M	01	01
Mr K Amarasinghe (Executive Director)********	05	04				M	02	00	M	02	02	M	02	01						
Mr W A Priyantha Abeysinghe (Working Director)*********	07	07				M	01	01	M	03	03	M	03	02	M	02	02			

*S – Status of Director in Respective Committees
C – Chairman of Committee
*E – Eligibility of Attendance
M – Member of the Committee
*A – Attendance
BI – By Invitation

** Resigned from 1 May 2018*

*** Appointed on 20 September 2018 and assumed duties on 1 October 2018*

**** Resigned from 31 May 2018*

***** Appointed on 1 August 2018*

****** Resigned from 1 May 2018*

******* Resigned from 28 February 2018*

******** Appointed on 12 July 2018*

********* Appointed on 12 July 2018*

********** Term expired on 27 November 2018*

General

The Directors of the Pradeshiya Sanwardana Bank (RDB) take pleasure in presenting their Annual Report on the affairs of the Bank, together with the audited financial statements of the Bank's seventh year ended 31 December 2018. The Report also confirms to the requirements of the Pradeshiya Sanwardana Bank Act No. 41of 2008, Banking Act No. 30 of 1988 and Directions on Corporate Governance. The Bank was originally established in 1997 when seventeen Rural Development Banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. These six Provincial Development Banks were further merged in May 2010 as a national level development bank and named the Pradeshiya Sanwardana Bank (Regional Development Bank or RDB). RDB was established under the Pradeshiya Sanwardana Bank Act No. 41 of 2008. RDB is a fully state-owned national level Bank with the objectives of empowering the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

Principal activities

The principal activities of the Bank are to facilitate the overall economic development of Sri Lanka by promoting the development of agriculture, industry, trade, commerce, livestock, fisheries activities and empowerment of Sri Lankans, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

Vision, Mission

The Bank's Vision and Mission are given on front inner cover of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under the Vision and Mission.

Going concern

The Board of Directors is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the going concern basis in preparing the financial statements.

Financial statements

The financial statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/ LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and complied with the Banking Act No. 30 of 1988. The Financial Statements of the Bank's eighth year ended 31 December 2018, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 100 and form an integral part of the Annual Report of the Board of Directors.

Directors' responsibilities for financial reporting

The Directors are responsible for the preparation of the financial statements that will reflect a true and fair view of the state of the affairs of the Bank. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. The Directors' responsibility statement appearing on page 88 of this Annual Report describes in detail the Directors' responsibilities in relation to the financial statements, which forms an integral part of the Annual Report of the Board of Directors.

Auditor's report

The Auditor General carried out the audit of the Bank in 2018, the audit was carried out throughout the year. Issues identified in their report were submitted to the Management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the financial statements, together with the necessary data and information, were made available to the Auditor General for examination. The Auditor General's opinion on the financial statements appears on page 94 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

Significant accounting policies

Significant accounting policies adopted in the preparation of financial statements are given on pages 106 to 121.

Directors' remuneration

Details of Directors' emoluments paid during the year are given in Note 12 of the financial statements.

Future developments

An overview of future developments of the Bank is given in the Chairman's Statement (on pages 8 to 9), the General Manager/ CEO's Review (on pages 10 to 11) and the Management Discussion and Analysis (on pages 12 to 15)

Review of business performance

A review of the Bank's performance during the financial year 2018 is contained in the Chairman's Statement (on pages 8 to 9), the General Manager/CEO's Review (on pages 10 to 11) and the Management Discussion and Analysis (on pages 12 to 15). These reports form an integral part of the Annual Report.

Financial results

The Bank's financial and operational performance is given on the General Manager/CEO's Review on pages 10 to 11 and in the Financial Highlights on pages 5 to 7.

Stated capital

The total shareholders' fund as at 31 December 2018 is LKR 14.8 Bn. The stated capital contributed by shareholders at the end of year is LKR 8.05 Bn. and their percentage of shareholding is as follows:

	LKR	%
General Treasury	7,553,739,710	94
Bank of Ceylon	164,484,480	2
People's Bank	164,484,480	2
National Savings Bank	164,521,260	2
Total	8,047,229,930	100

Income

The gross income of the Bank for 2018 was LKR 26 Bn. Details of the income are given on page 124.

Taxation

The Bank contributed LKR 2,575 Mn. by way of taxes and levies to the Government in 2018. This consisted of LKR 1,072 Mn. of Income Tax, LKR 1,159 Mn. of Financial Service Value Added Tax, LKR 154 Mn. of NBT and LKR 190 Mn. of Debt Repayment Levy. The Income Tax Rate applicable on the Bank's operations is 28%. It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method.

Property, plant and equipment

The total capital expenditure incurred by the Bank on the acquisition of property, plant and equipment, leasehold property and intangible assets during the year amounted to LKR 414 Mn. (2017 LKR 325 Mn.), the details of which are given in Notes 24 and 25 of the financial statements on pages 137 to and 142 of this Annual Report.

Events after the balance sheet date

There have been no material events occurring after the balance sheet date that require adjustment to or disclosure in the Financial Statements.

Outstanding litigation

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 38.2 of the financial statements will not have a material impact on the financial position of the Bank or its future operations.

Capital and reserves

The Capital and Reserves of the Bank including retained earnings consist of the following:

	2018 LKR	2017 LKR
Stated capital	8,047,229,930	3,870,936,931
Statutory reserve fund	717,331,468	663,652,150
Special reserve fund	571,721,796	518,042,478
General reserve fund	3,057,925,624	2,843,208,353
Retained earnings	2,315,905,811	1,716,908,747
Total	14,710,114,629	9,612,748,660

Dividends

The Board of Directors have approved a final dividend distribution of 5% on the shares in issue as at 31 December 2018 excluding the value of the share issue effected on 31 December 2018, out of profits for the year 2018. A shareholder's resolution in this regard has to be passed at the forthcoming Annual General Meeting.

Board of Directors

The Board of Directors comprises seven members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 33 to 35 of this Annual Report.

Mr J T S P Kariyawasam – Chairman

Mr A R Desapriya – Non-Independent Non-Executive Director (Resigned in January 2019)

Mr K B Wijeyarathne – Non-Independent/ Non-Executive Director

Mr M J P Salgado – Non-Independent/ Non-Executive Director

Mr K B Rajapakse – Non-Independent/ Non-Executive Director

Mr Neil De Alwis – Independent/ Non-Executive Director (till 4 April 2019)

Mr K Amarasinghe – Executive Director (till 4 April 2019)

Mr A K Seneviratne – Non-Independent Non-Executive Director (appointed on 21 February 2019)

Resignation of Directors

Mr Prassanna Premaratna – Chairman, (Resigned from 1 May 2018)

Mr Kasthuri Anuradhanayaka – Chairman, (Resigned from 31 August 2018)

Mr J K Gamanayaka – Non-Independent/ Non-Executive Director (Resigned from 31 May 2018)

Mr M C M Muneer – Independent/ Non-Executive Director (Resigned from 28 February 2018)

Ms Shamara Herat – Independent/ Non-Executive Director (Resigned from 1 May 2018)

Mr W A Priyantha Abeysinghe – Working Director, term expired on 27 November 2018

New appointment of Directors

Director	Date of Appointment
Mr Kasthuri Anuradhanayaka	1 May 2018
Mr J T S P Kariyawasam	20 September 2018
Mr K B Wijeyarathne	1 August 2018
Mr Neil De Alwis	12 July 2018
Mr K Amarasinghe	12 July 2018

Board subcommittees

The Board of Directors of the Bank while assuming the overall responsibility and accountability has also established the following Board Subcommittees to ensure conformity with Corporate Governance Standards of the Central Bank and other statutory compliances. The composition of Board Subcommittees is as follows:

Audit committee

1. Mr A R Desapriya (Chairman of the Committee)
2. Mr K B Wijeyarathne (appointed on 1 August 2018)
3. Mr Neil De Alwis (appointed on 12 July 2018)
4. Mr J K Gamanayaka (resigned from 31 May 2018)
5. Ms Shamara Herat (resigned from 1 May 2018)

Report of the Audit Committee is given on page 80 and forms a part of the Director's Report.

Integrated risk management committee

1. Mr K B Rajapakse (Chairman of the Committee)
2. Mr K B Wijeyarathne (appointed on 1 August 2018)
3. Mr M J P Salgado
4. Mr W A P Abeysinghe (resigned from 27 November 2018)
5. Mr Neil De Alwis (appointed on 12 July 2018)
6. Mr K Amarasinghe (appointed on 12 July 2018)
7. Mr T A Ariyapala – GM/CEO
8. Mr T Kuhan – Chief Risk Officer
9. Mr W M S Wickramasinghe – Compliance Officer

Report of the Integrated Risk Management Committee is given on page 85 which forms part of the Directors' Report.

Human resources and remuneration committee

1. Mr Prasanna Premarathne (Chairman – resigned on 1 May 2018)
2. Mr J T S P Kariyawasam (Chairman – appointed on 20 September 2018 and assumed duties on 1 October 2018)
3. Mr M C M Muneer (resigned from 28 February 2018)
4. Ms Shamara Herat (resigned from 1 May 2018)
5. Mr W A P Abeysinghe (resigned from November 2018)
6. Mr Neil De Alwis (appointed on 12 July 2018)
7. Mr K Amarasinghe (appointed on 12 July 2018)
8. Mr T A Ariyapala – GM/CEO
9. Mr K M J S Karunathilaka – Head of HRD and Administration

Board IT steering committee

1. Mr K B Rajapakse (Chairman of the Committee)
2. Mr M J P Salgado
3. Mr Neil De Alwis (appointed on 12 July 2018)
4. Mr T A Ariyapala – GM/CEO
5. Mr V Jayasinghe – Chief Information Officer
6. Mr T Kuhan – Chief Risk Officer

Board credit committee

1. Mr Prasanna Premarathne (Chairman – resigned from 1 May 2018)
2. Mr J T S P Kariyawasam (Chairman – appointed on 20 September 2018 and assumed duties on 1 October 2018)
3. Mr K B Rajapakse
4. Mr J K Gamanayaka (resigned from 31 May 2018)
5. Mr M C M Muneer (resigned from 28 February 2018)
6. Mr K B Wijeyarathne (appointed on 1 August 2018)
7. Mr W A P Abeysinghe (resigned from 27 November 2018)
8. Mr K Amarasinghe (appointed on 12 July 2018)

Nomination committee

1. Mr Prasanna Premarathna (Chairman of the Committee, resigned from 1 May 2018)
2. Mr J T S P Kariyawasam (Chairman – appointed on 20 September 2018 and assumed duties on 1 October 2018)
3. Mr M C M Muneer (resigned from 28 February 2018)
4. Ms Shamara Herat (resigned from 1 May 2018)
5. Mr W A P Abeysinghe (resigned from 27 November 2018)
6. Mr Neil De Alwis (appointed on 12 July 2018)
7. Mr T A Ariyapala – GM/CEO
8. Mr K M J S Karunathilaka – Head of HRD and Administration

Directors' meetings

The number of Directors' meetings which comprise Board meetings, Board Audit Committee meetings, Board Integrated Risk Management Committee meetings, Board Human Resources and Remuneration Committee meetings, Board Nomination Committee meetings, Board Credit Committee Meetings and Board IT Steering Committee meetings and the attendance of Directors at these meetings are given on Corporate Governance Report on page 73 of this Annual Report.

Directors' interest in contracts

Director's interest in contract with the Bank both directly and indirectly are referred to in Note 39.2.3 to the financial statements. The Directors do not have any other direct or indirect interest in contracts or proposed contracts with the Bank.

Related party transactions

The Directors have also disclosed the transactions, if any, that could classify as related party transactions in terms of Sri Lanka Accounting Standards (LKAS 24) – "Related Party Disclosures", which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in Note 39 to the financial statements.

General Manager/Chief Executive Officer (GM/CEO)

The General Manager is the Chief Executive Officer of the Bank and is appointed by the Board of Directors. The General Manager has the right to be present at, and to participate in the meetings of the Board.

Human resources

The Bank continued to develop and maintain dedicated and highly motivated employees who are committed to creating sustainable value through high-quality service.

Operational excellence

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.

Environmental protection

The Bank has taken initiatives to safeguard and enhance the environment which is vital for sustainable development and growth of the Bank. The Bank has not engaged in any activity that is harmful or hazardous to the environment.

Statutory payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time.

Risk management internal controls and management information system

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been redesigned to mitigate the risks to which the Bank is exposed to and provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risks are detailed on pages 42 to 53 to this Annual Report.

Directors' statement of internal control

The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual report of the Board of Directors, is given on pages 91 to 92. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 90 of this Annual Report.

Corporate governance

In the management to the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced/improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 55 to 73 for which the Board has obtained a Report of Factual Findings from the Auditor General.

Compliance with laws, regulations and prudential requirements

The Bank has at all times ensured that it complied with Pradeshiya Sanwardana Bank Act and all other applicable laws, regulations and prudential requirements.

Auditors

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31 December 2018.

By the order of the Board,

Secretary to the Board

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provision of the Banking Act Direction No. 12 of 2017 on Corporate Governance for Licensed Specialised Banks in Sri Lanka. Proceedings of BAC are based on the Charter adopted by the Board of Directors for the functioning of the Committee.

The Board of Directors periodically reviews and authorises the Board Audit Committee Charter for the purposes of delegating authority, scope and responsibilities of the BAC. With its delegated powers, BAC determines the scope and duties of Internal Audit functions in accordance with Internal Audit Charter.

Composition of the Committee

Mr A R Desapriya, Chairman of the BAC and representative of the Treasury, Ms Shamara Herat served the BAC from 2015, with the resignation on 1 May 2018 and Mr J K Gamanayaka served the BAC from 2015, with the resignation on 31 May 2018 Mr Neil De Alwis and Mr K B Wijeyarathne were appointed to the BAC with effect from 12 July 2018 and 1 August 2018 respectively. The quorum for a BAC meeting is two (02) members.

General Manager/CEO, Head of Audit, Chief Risk Officer, Chief Finance Officer and Senior Assistance General Manager (Compliance) and a representative of the Auditor General attend the BAC meetings when invited by the BAC. Relevant officers from business units are also invited to attend certain meetings in order to make presentations on matters designed to enhance BAC awareness on key issues and developments of business which are relevant to the BAC in the performance of its role. The Board Secretary functions as the Secretary to the BAC.

Duties and role of the Board Audit Committee

The BAC is responsible for –

- Reviewing of financial information of the Bank, in order to monitor integrity of the financial statements of the Bank, its Annual Report, Accounts and Quarterly Reports prepared for disclosure.
- Reporting to the Board on the quality and acceptability of the Bank's accounting policies and practices.
- Reviewing of accounting and financial reporting, risk management processes and regulatory compliance.
- Reviewing of financial statements (including quarterly statements) prior to publication to ensure compliance with statutory provisions, accounting standards and accounting policies, which are consistently applied.
- Reviewing of Internal Audit reports and co-ordinating with corporate management in taking precautionary procedures to obviate violations, frauds and errors.
- Assessing independence of monitoring performance and functions of the Internal Audit Department including overseeing the appointment of the Head of Audit.
- Reviewing of effectiveness of the Bank's system of internal control over financial reporting to provide reasonable assurance regarding the reliability of financial statements for external purposes in accordance with applicable accounting standards and regulatory requirements.
- Engaging independent advisors on specialised functions where it deems necessary.

Meetings

Meetings of the committee are convened quarterly, in accordance with the regulations/ guidelines for organisational corporate governance issued by the Central Bank of Sri Lanka. Three (03) Audit Committee meetings have been held during the year ended 31 December 2018.

Attendance of committee members is as follows:

Name of the committee member	Attendance
Mr A R Desapriya (Chairman)	03/03
Ms S Herat	01/03
Mr J K Gamanayaka	01/03
Mr Neil De Alwis	02/03
Mr K B Wijeyarathne	02/03

According to the Internal Audit Plan during the year under review, entire branch network, IT Division, HRD Division, Polonnaruwa District Office and Puttalam District Office have been audited by the Internal Audit Department under the supervision and guidance of the Board Audit Committee. At the same time BAC has assisted the Board in ensuring that Annual Audited financial statement and Quarterly financial statements are prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable accounting standards.

The BAC also followed up on corrective measures taken by the Management during the year 2018 on matters raised by CBSL Statutory Examination Report and by the Auditor General in the Report for the year ended 31 December 2018.

Furthermore, actions have already been taken for improving internal control system and means of mitigating frauds, errors and other loss events. The Board Audit Committee evaluates the Bank's sustainability, profitability and other related concerns. Arrangements have also been made to enhance knowledge and skills of Audit staff.

Accordingly, The Board Audit Committee certifies that the Bank maintains adequate and appropriate controls and adherence to the procedures/systems for compliance in financial reporting and risk managements.

A R Desapriya
Chairman
Board Audit Committee

Introduction

Regional Development Bank (RDB) is required to establish Board Subcommittees to report directly to the Board of Directors in terms of the corporate governance practices and the directions of Central Bank of Sri Lanka (CBSL) as set out in the Directions 3 (6) issued to Licensed Specialised Banks. In terms of its Section 3 (6) (iii) and (iv). Two separate committees were formed with the composition of the Board of Directors, namely Board Human Resources and Remuneration Committee and Board Nomination Committee. Responsibilities were assigned to the two committees within the scope defined as per CBLS directions.

BHRRC and BNC functioned as two separate committees as per defined Terms of Reference (TOR) with effect from 27 March 2017.

Scope

The scope of BHRRC includes

- Determining the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel (KPMs) of the Bank.
- Setting goals and targets and evaluating the performance of the Directors, CEO and the KMPs and evaluating the performance of the CEO and Key Management Personnel against the set targets and goals periodically.
- Guiding and advising to devise human resource strategies and policies linked with business and functional strategies of the Bank.

The scope of Nomination Committee includes

- Defining qualifications, experience and key attributes required for appointment or promotion to the post of CEO and the KMPs.
- Implementing a procedure to select/appoint new members to the Board Subcommittees, CEO and KMPs or reconsider their reappointment and the extension of the CEO and the KMPs on the performance and contribution made by them towards overall objectives of the Bank.
- Ensuring that Directors are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.
- Considering and recommending from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.

These two Committees make their recommendations for approval of the Board of Directors.

Composition and meetings

The two Committees were headed by the Chairman of the Bank.

Three (3) Board Nomination Committee meetings and four (4) Board Human Resources and Remuneration Committee meetings were held during the year ended 31 December 2018.

Head of HRD and Administration shall present all papers through General Manager with background and other related information and analysis to enable committee members to derive at decisions.

The Secretary to these Committees is the Secretary to the Board. Division or Unit heads are invited for opinions on their respective functions as when required.

The General Manager/CEO shall be present at all meetings of the BHRRC whereas GM/CEO shall be present at Nomination Committee meetings by invitation.

The quorum for a meeting of each committee shall be two Independent Non-Executive Directors.

The Committee shall meet at least quarterly.

The committee members were changed during the year and attendance details are as follows:

Board human resources and remuneration committee members

Name	Attended/ eligible
Mr Prasanna Premaratna – Chairman (Resigned on 1 May 2018)	2/4
Mr J T S P Kariyawasam – Chairman (Appointed w.e.f. 1 October 2018)	2/4
Ms Shamara Herat – Director (Resigned on 1 May 2018)	2/4
Mr M C M Muneer – Director (Resigned on 28 Feb 2018)	1/4
Mr Neil De Alwis – Director (Appointed w.e.f. 12 July 2018)	2/4
Mr W A P Abeysinghe – Working Director (Resigned on 27 November 2018)	3/4
Mr K Amarasinghe – Executive Director (Appointed w.e.f. 12 July 2018)	2/4
Mr T A Ariyapala – GM/CEO of the Bank	
Mr K M J S Karunathilaka – Head of HRD and Admin	
Ms R M T Rajapakse – Secretary to the Committee	

Board nomination committee members

Name	Attended/ eligible
Mr Prasanna Premaratna – Chairman (Resigned on 1 May 2018)	1/3
Mr J T S P Kariyawasam – Chairman (Appointed w.e.f. 1 October 2018)	2/3
Ms Shamara Herat – Director (Resigned on 1 May 2018)	1/3
Mr M C M Muneer – Director (Resigned on 28 February 2018)	1/3
Mr W A P Abeysinghe – Working Director (Resigned on 27 November 2018)	2/3
Mr Neil De Alwis – Director (Appointed w.e.f. 12 July 2018)	2/3
Ms R M T Rajapakse Secretary to the Committee	

Summary of activities

In May 2018, the Board considered the need for reconstitution of the two committees in view of the resignation of Mr Prasanna Premarathne who was the Chairman of the BNC and the BHRRC and Ms Shamara Herat, Director who was a member of the BNC and the BHRRC. Accordingly, with the appointment of Mr J T S P Kariyawasam as the Chairman of RDB he was appointed as the Chairman of the BNC and BHRRC and subsequently Mr Neil De Alwis was appointed as the member of the BNC and the BHRRC.

The Secretary to the Committees submit recommendations with the minutes of the meetings of BHRRC and BNC for the approval of the Board of Directors. The Board approved the recommendations made by the BHRRC and BNC during the period under review.

Chairman
Board Human Resources and Remuneration Committee
Board Nomination Committee

Scope

The BITSC has been established to ensure the degree of reliance on information and communication technology and to assist the Bank with the growing demands of IT governance.

The Committee is responsible to set overall strategies for Information and Communication technologies and recommend to the Board of Directors the implementation of Information and Communication technology activities of the Bank to improve customer services and internal efficiency.

Composition of the committee

The BITSC approved by the Board of Directors of Regional Development Bank (RDB) comprises the following members:

Committee members

- Mr K B Rajapaksha
  – Chairman of the Committee/Director
- Mr M J P Salgado
  – Member/Director
- Mr Neil De Alwis
  – Member/Director

General Manager/Chief Executive Officer, Deputy General Manager/Chief Information Officer, Chief Risk Officer are members of the Corporate Management who attend to these meetings as invitees. Any officer of the Bank can also attend the meetings on invitation.

The quorum for the meeting of BITSC is two members. BITSC has conducted two meetings during 2018 thus meeting the regulatory requirements.

Chairman
Board IT Steering Committee (BITSC)

The Integrated Risk Management Committee of the Bank was established to ensure the risk management framework has provided an integrated and adequate coverage over all risks faced by Regional Development Bank. RDB Integrated Risk Management Committee was established based on the CBSL guidelines. The establishment of Integrated Risk Management Committee refers to monitor the risk profile of the Bank and Implementation of Integrated Risk Management for control and mitigate the risk factors.

Main duties of the integrated risk management committee

To give recommendation to the Board of Directors, which at least includes –

- Development of an integrated risk management policy.
- Improvements on the integrated risk management policy based on evaluation results.

Composition of the committee

The IRMC approved by the Board of Directors of RDB comprises the following members of which four are Non-Executive members which is in line with the statutory requirements imposed by the regulator CBSL:

1. Mr K B Rajapakse	– Chairman of the Committee/Non-Executive Director
2. Mr K B Wijeyarathne	– Member/Non-Executive Director
3. Mr M J P Salgado	– Member/Non-Executive Director
4. Mr W A P Abeysinghe	– Member up to November 2018/ Working Director
5. Mr Neil De Alwis	– Member since 12 July 2018/Non-Executive Director
6. Mr Mr K Amarasinghe	– Member since 12 July 2018/ Executive Director
7. Mr T A Ariyapala	– GM/CEO
8. Mr T Kuhan	– Chief Risk Officer

Compliance Officer was attended the meetings on invitations during 2018.

The brief profiles of the members of the Committee represent in the Director Board and the Corporate Management is given on pages 33 to 37 of this Annual Report. The Secretary to the Board is also the Secretary to the Committee as well.

Terms of reference

The Board-approved Terms of Reference of the Committee is indicated below:

1. To ensure that the Bank has a comprehensive risk management framework, appropriate compliance and system in place.
2. To access all risk types, including but not limited to: credit, liquidity, operational and strategic reputational risks to the Bank appropriate risk indicators and Management information.
3. To ensure that risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk taken beyond the risk tolerance set by the Committee, on the basis of the Bank's policies and regulatory and supervisory requirements.
4. To monitor and access the effectiveness of the Bank's Risk Management System and the robustness of the risk management function.
5. To periodically assess performance against internally defined risk appetite.
6. To review the Bank's compliance report and action taken in relation to report.
7. To review issues related to integrated risk management framework.
8. To review progress on Basel III road map implementation and regulatory guidelines. We draw your attention to the Risk Management Section of the report (pages 42 to 53) which extensively covers level of adherence against the Terms of Reference, achievements during the year and actions taken to mitigate key risks.

Meetings

The Committee has met three times during the year and not complied with the minimum requirement specified by CBSL guidelines due to the quorum of the Committee.

Reporting

The proceedings of the IRMC meetings are reported to the Board through submission of the meeting minutes. Report on Risk Profile of the Bank and other specific matters are submitted separately for the Board of Directors approval on recommendation of the IRMC. The recommendations made by the IRMC during the year under review were approved by the Board of Directors.

Chairman
Integrated Risk Management Committee

The financial statements of the Pradeshiya Sanwardana Bank as at 31 December 2018 are prepared and presented in compliance with the following regulatory requirements:

1. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka;
2. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
3. Listing Rules of the Colombo Stock Exchange;
4. Banking Act No. 30 of 1988 and amendments thereto;
5. Directions, circulars and guidelines issued to Licensed Specialised Banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on corporate governance; and
6. Pradeshiya Sanwardana Bank Act No. 41 of 2008.

The formats used in the presentation of the financial statements and disclosures are in compliance with the specified formats for the preparation of Annual financial statements of Licensed Specialised Banks, issued by the Central Bank of Sri Lanka.

The Accounting Policies of the Bank are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka, which came into effect from 1 January 2012. The Accounting Policies are consistently applied by the Bank. Comparative information has been restated wherever necessary to comply with the current year's presentation. All significant items have been disclosed and explained by way of Notes to the financial statements. We confirm to the best of our knowledge, that the financial statements presented herewith give a true and fair view of the financial position, income statement and the cash flows of the Bank for the year. We also believe that the Bank has adequate resources to continue its operations in the foreseeable future and accordingly adopt the going concern basis for the preparation of the financial statements.

The Board of Directors and the management of the Bank accept responsibility for the integrity and the objectivity of the financial statements. The estimates and judgements relating to the financial statements were made on a reasonable and prudent basis; in order that the financial statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Bank is reasonably presented.

To ensure this, the Bank has taken proper and sufficient care in implementing internal control systems, with the use of a core banking system, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Internal Auditor of the Bank has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal control and accounting.

The financial statements of the Bank was audited by Auditor General's Department. The Report issued by Auditor General is available on page 94 of the Annual Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 80 to 81 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee at the Audit Committee Meeting to discuss any matter of substance.

We confirm to the best of our knowledge that:

- The Bank has complied with all applicable laws, rules, regulations, and guidelines;
- There is no material non-compliance;
- There is no material litigation against the Bank other than those disclosed in Note 38.2 of the financial statements section of the Annual Report;
- All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank as at the reporting date have been paid, or where relevant provided for.

T Kuhan
Acting General Manager/CEO

P S Edirisuriya
Chief Financial Officer

10 May 2019

This Statement of the Board of Directors sets out the responsibilities of the Directors relating to the Financial Reporting Framework of the Bank. The responsibilities of the Auditors in relation to the financial statements are set out in the Report of the Auditors on page 94 of the Annual Report.

Financial statements

The Directors of the Bank are responsible for ensuring that the Bank keeps proper books of accounts of all the transactions and prepare financial statements in accordance with Generally Accepted Accounting Principles and Sri Lanka Accounting Standards (SLFRS/LKAS) that give a true and fair view of the state of affairs of the Bank at the end of each financial year and in compliance with the relevant statutory/regulatory requirements. The financial statements comprise of Income Statement, Statement of Comprehensive Income, Statement of financial position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes there to.

The Directors acknowledge that in the preparation of financial statements for the year ended 31 December 2018, presented in the Annual Report, the most appropriate accounting policies have been used, applied consistently and adequately disclosed. Reasonable and prudent judgements have been made where necessary in order to ensure the proper reflection of the form and substance of transaction in the process of preparing financial statements.

The financial statements for the year ended 31 December 2018 are in conformity with the requirements of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and amendments thereto, Sri Lanka Accounting Standards and other statutory/ regulatory requirements. These financial statements reflects true and fair view of the state of affairs of the Bank as at 31 December 2018.

Going concern

The Directors are of the view that the Bank has adequate resources to continue in business for the foreseeable future and accordingly, continued to adopt going concern basis in preparing the financial statements.

Internal control, risk management and compliance

The Directors are also responsible for the system of internal financial controls and risk management and paying significant attention on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst emphasising inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls. A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on pages 91 and 92 of the Annual Report.

The Directors and Management have put in place risk management policies and guidelines. Board subcommittees have been established to monitor and manage material risks and arrangements have been made to submit reports on risk to the Integrated Risk Management Committee on periodic basis for discussion.

Compliance with applicable laws, regulations, rules, directives and guidelines are monitored by Compliance Division and is reported to the Integrated Risk Management Committee and Board of Directors periodically.

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on page 80 and 85 respectively of the Annual Report.

The Auditor General has been made available with all records of the Bank including the financial statements by the Board of Directors and been provided every opportunity to undertake the inspections they considered appropriate.

Compliance

The Directors, to the best of their knowledge and belief, are satisfied that all taxes payable by the Bank and all other known statutory dues to the Government and to the other relevant regulatory and statutory authorities, which were due and payable by the Bank as at the end of financial year, have been paid or where relevant provided for.

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

By Order of the Board,

Secretary to the Board

26 March 2019

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAF/F/RDB/IC/2018 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதි / Date 25 June 2019

The Chairman,
Pradeshiya Sanwardhana Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control of Pradeshiya Sanwardhana Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over financial reporting ("Statement") of Pradeshiya Sanwardhana Bank included in the Annual Report for the year ended 31 December 2018.

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 the Section 3 (8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

My Responsibility and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

My engagement has been conducted 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 does not require me to consider whether the Statement covers all risk and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspect of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my 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.

W P C Wickramarathne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව | இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை | No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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Requirement

This report has been issued in line with the Banking Act Direction No.12 of 2007, Section 3 (8) (ii) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL).

Responsibility

The Board of Directors is responsible for Internal Control in Pradeshiya Sanwardana Bank and for reviewing its effectiveness and adequacy. However, such a system is designed to manage the Bank's key areas of risk within and acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objective of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of Management and financial information and records of against financial losses or fraud.

Board review process

The internal control process is reviewed periodically by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance. The Board is of the view that the Bank has taken steps to improve the system of internal controls to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Board subcommittees of Audit, Credit and Integrated Risk Management have been established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Board has approved an Operational Manual in related to the Financial and other controls of the Bank in its all transactions. The procedures laid down in the manual have been communicated to all members of the staff.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at the periodic meetings.
- The Audit Committee of the Bank review internal control issues identified by the Internal Audit Division, regulatory authorities and Management, and evaluate the adequacy and effectiveness of the risk Management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

- The Bank adopted the new Sri Lanka Accounting Standards comprising SLFRS – 9, "Financial Instruments" in 2018. The process and procedures initially applied to adopt the aforementioned accounting standards to be further strengthened based on the feedback from External Auditors, regulators and the Board Audit Committee. The Bank will continue to further strengthen the process on impairment of loans and advances, Financial Statement disclosures and risk management.

Confirmation

Based on the above processes the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and Regulatory Requirements of the Central Bank of Sri Lanka.

Review of the statement by external auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 December 2018 and are supposed to report to the Board whether anything 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 review of the design and effectiveness of the internal control system of the Bank.

Chairman – Board Audit Committee

Chairman

Director

26 March 2019

7.
Financial Reports

In 2018, the Bank achieved an increase in gross income of 18%, in net operating income of 13% and in operating profit before taxes of 9%. Profit after taxes however suffered a decline due to changes in taxation policies.

Total assets grew by 5%, while shareholders' equity showed an increase of 53%. The latter was mainly due to the acquisition of a 100% equity stake in Lankaputhra Development Bank by issuance of the Bank's shares.

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NATIONAL AUDIT OFFICE

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Chairman
Pradeshiya Sanwardhana Bank

Report of the Auditor General on the financial statements and other legal and regulatory requirements of the Pradeshiya Sanwardhana Bank for the year ended 31 December 2018 in terms of Section 12 of the National Audit Act No. 19 of 2018.

1. Financial statements

1.1 Opinion

The audit of the financial statements of the Pradeshiya Sanwardhana Bank ("Bank") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of matter

Without qualifying my opinion, I draw your attention to the Note No. 22.2 to the financial statements which mentioned that the Bank has acquired 100 per cent equity stake in Lankaputhra Development Bank in line with Government Budget Proposal of year 2016 thereby proposed to Lankaputhra Development Bank to be merged with Pradeshiya Sanwardhana Bank. Pradeshiya Sanwardhana Bank acquired the entire shareholding of Lankaputhra Development Bank for a purchase consideration of LKR 4.176 Bn. and the purchase consideration was settled by way of new share issue in favour of General Treasury with effect from 31 December 2018. However, share cancellation or new share issue had not been taken place in the books of Lankaputhra Development Bank and total shareholder funds as at 31 December 2018 was LKR 5.386 Bn. The above investment does not qualify to be a subsidiary of a Pradeshiya Sanwardhana Bank do not have the controlling power and its remained with the Ministry of Finance as confirmed by the Director General of Department of Public Enterprises.

1.2 Basis for opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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Key audit matters

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

<table>
<tr><th>Key audit matter</th><th>How my audit addressed the key audit matter</th></tr>
<tr><td>Impairment allowance for loans and advances including Bank's transition to SLFRS 9: My audit considered impairment allowance for loans and receivables from other customers as a key audit matter. The materiality of the reported amounts for loans and advances (and impairment allowance thereof), the subjectivity associated with the Management's impairment estimation and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned my basis for considering it as a Key Audit Matter.

As at 31 December 2018, 75 percentage of its total assets of the Bank consisted of loans and receivables from other customers amounting to LKR 133,433 Mn. (Note 20), net of impairment allowance of LKR 1,410 Mn. (Note 10). The impact of transition to SLFRS 9 on the Bank's financial statements has been quantified and presented in Note 4 of the financial statements.

The estimation of impairment allowance for loans and receivables from other customers involved complex manual calculations. Significant estimates and assumptions used by the Management in such calculations, its sensitivities and the basis for impairment allowance are disclosed in Note 3.1.1.7.</td><td>To assess the reasonableness of the impairment allowance, my audit procedures (among others) were designed to obtain sufficient and appropriate audit evidence, included the following:
• I evaluated design, implementation and operating effectiveness of controls over estimation of impairment of loans and receivables from other customers, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and the Management.
• I test-checked the underlying calculations and data.
• In addition to the above, following focused procedures were performed:

For loans and receivables from other customers – Individually assessed for impairment:
• I assessed the main criteria used by the Management for determining whether an impairment event had occurred
• Where impairment indicators existed, I assessed the reasonableness of the Management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. I also compared the actual recoveries against previously estimated amounts of future recoveries
• Where loans and advances granted to customers with a higher risk of credit loss, I assessed the main criteria used by the Management for determining whether an impairment event had occurred and the reasonableness of management estimation of such additional impairment.

For loans and receivables from other customers – Collectively assessed for impairment
• I tested the completeness, relevance and accuracy of the underlying information in loans and receivables used in the impairment calculation by agreeing details to the Bank's source documents and information in IT systems as well as re-performing the calculation of impairment allowance.
• I also considered reasonableness of macro economic and other factors used by the Management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources.

• I assessed the adequacy of the related financial statement disclosures as set out in Note 20.
• I also assessed the adequacy of the Bank's disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 4. This included testing of the quantitative impact of transition.</td></tr>
</table>

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1.3 Responsibilities of the Management and those charged with governance for the financial statements

The 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 the Management determine 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, the Management is responsible for assessing the Bank'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 the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Bank.

1.4 Auditor's responsibilities for the audit of the financial statements

My objective is 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards 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 Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I 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 my 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the 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 Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my Auditor's Report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my Auditor's Report. However, future events or conditions may cause the Bank 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on other legal and regulatory requirements

National Audit Act No. 19 of 2018 includes specific provisions for following requirements:

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of Section 12 (a) of the National Audit Act No. 19 of 2018;
- The financial statements presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018;
- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018;

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of Section 12 (d) of the National Audit Act No. 19 of 2018;
- to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of Section 12 (f) of the National Audit Act No. 19 of 2018;
- to state that the Bank has not performed according to its powers, functions and duties as per the requirement of Section 12 (g) of the National Audit Act No. 19 of 2018;
- to state that the resources of the Bank had not been procured and utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of Section 12 (h) of the National Audit Act No. 19 of 2018.

W P C Wickramarathne
Auditor General

For the year ended 31 December	Note	2018 LKR	2017 LKR
Gross income	5	26,070,610,605	22,016,071,577
Interest income		24,865,108,981	20,908,493,021
Interest expenses		(12,959,526,709)	(11,233,284,493)
Net interest income	6	11,905,582,272	9,675,208,528
Fee and commission income		1,186,795,173	1,101,825,405
Fee and commission expenses		(259,105,166)	(181,086,441)
Net fee and commission income	7	927,690,007	920,738,964
Net trading gain/(loss)	8	1,215,762	1,079,185
Other operating income (net)	9	17,490,689	4,673,967
Total operating income		12,851,978,730	10,601,700,644
Impairment charges	10	(1,409,784,095)	(443,866,831)
Net operating income		11,442,194,635	10,157,833,813
Less-operating expenses			
Personnel expenses	11	(5,877,946,793)	(4,980,435,598)
Depreciation and amortisation expenses		(319,020,738)	(326,101,075)
Other expenses	12	(1,638,896,765)	(1,419,302,464)
Levy paid to general treasury		–	(125,000,000)
Operating profit before value added tax (VAT)		3,606,330,339	3,306,994,676
Taxes on financial services	13	(1,503,248,448)	(1,116,268,931)
Profit before tax		2,103,081,891	2,190,725,745
Tax expenses	14	(1,029,495,530)	(906,796,239)
Profit for the year		1,073,586,361	1,283,929,506
Earnings per share			
Earnings per share: Basic	15	7.69	9.23

Figures in brackets indicate deductions.

The amounts for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instrument", whereas prior period amounts have not been restated.

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 103 to 180. The Report of the Auditors is given on page 94.

For the year ended 31 December	Note	2018 LKR	2017 LKR
Profit for the year		1,073,586,361	1,283,929,506
Other comprehensive income/(expenses)			
Other comprehensive income not to be reclassified to profit or loss			
Actuarial loss on retirement benefit obligation	33.3	(111,149,773)	(236,286,599)
Deferred tax effect on above	26.2	31,121,936	66,160,248
Total other comprehensive income for the year, net of taxes		(80,027,837)	(170,126,351)
Total comprehensive income for the year		993,558,524	1,113,803,154

Figures in brackets indicate deductions.

The amounts for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instrument", whereas prior period amounts have not been restated.

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 103 to 180. The Report of the Auditors is given on page 94.

Statement of financial position

As at 31 December	Note	2018 LKR	2017 LKR
Assets			
Cash and cash equivalent	17	689,184,136	572,294,808
Placements with banks	18	6,496,628,053	6,682,475,675
Equity instruments at fair value through profit or loss	19	115,600	146,500
Financial assets at amortised cost – Loans and receivables from other customers	20	133,432,804,004	127,508,812,394
Financial investments at amortised cost – Debt and other instruments	21	27,757,513,965	28,130,079,911
Equity instruments at fair value through other comprehensive income	22	4,176,342,999	–
Financial assets available for sale	22	–	50,000
Financial assets held to maturity	23	–	2,512,362,500
Property, plant and equipment	24	1,275,785,603	1,204,892,835
Intangible assets	25	60,787,719	37,842,762
Deferred tax assets	26	467,332,859	343,878,698
Other assets	27	2,580,824,487	2,266,365,532
Total assets		176,937,319,425	169,259,201,615
Liabilities			
Due to banks	28	11,098,334,822	10,729,312,134
Due to other customers	29	141,559,973,557	139,827,364,797
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Current tax liabilities	31	473,833,076	365,502,454
Other liabilities	32	2,460,286,430	2,320,526,315
Retirement benefit obligation	33	1,926,924,377	1,695,894,720
Total liabilities		162,227,204,796	159,646,452,955
Equity			
Stated capital	34	8,047,229,930	3,870,936,931
Statutory reserve fund	35	717,331,468	663,652,150
Retained earnings	36	2,315,905,812	1,716,908,747
Other reserves	37	3,629,647,420	3,361,250,831
Total shareholders' equity		14,710,114,630	9,612,748,660
Total equity and liabilities		176,937,319,425	169,259,201,615
Contingent liabilities and commitments	38	212,759,167	406,561,172

The amounts for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instrument", whereas prior period amounts have not been restated.

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 103 to 180. The Report of the Auditors is given on page 94.

I certify that the financial statements are prepared in compliance with the requirements of the Banking Act No. 30 of 1988 and the Pradeshiya Sanwardana Banking Act No. 41 of 2008.

P S Edirisuriya
Chief Financial Officer

T Kuhan
General Manager/CEO (Acting)

The Board of Directors is responsible for the preparation and presentation of these financial statements which were approved by the Board of Directors and signed on their behalf.

J T S P Kariyawasam
Chairman

K B Wijerathne
Director

10 May 2019
Colombo.

For the year ended 31 December	Note	2018 LKR	2017 LKR
Cash flow from operating activities			
Profit before tax		3,606,330,339	3,306,994,676
Adjustment for:			
Non-cash items included in profit before tax	41	2,009,117,605	1,077,334,374
Changes in operating assets	42	(7,759,296,804)	(24,958,618,433)
Changes in operating liabilities	43	2,335,364,021	34,542,627,172
Others reclassification		–	30,154
Contribution paid to defined benefit plans	33.1	(125,672,259)	(47,155,929)
Taxes on financial services		(1,025,230,834)	(1,093,435,620)
Tax paid	31	(958,313,173)	(897,233,601)
Net cash generated from/(used in) operating activities		(1,917,701,106)	11,930,542,793
Cash flows from investing activities			
Purchase of property, plant and equipment	24	(363,021,456)	(303,997,879)
Net purchase of intangible assets	25	(50,630,424)	(20,602,627)
Investment in fixed deposits (more than three months)		(1,493,138,238)	(16,220,888,212)
Proceeds from the sale of property, plant and equipment		12,009,452	1,017,097
Net cash (used in)/from investing activities		(1,894,780,666)	(16,544,471,622)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital	34	–	2,500,000,000
Net proceeds from the issue of subordinate debt	30.1	–	2,000,000,000
Interest paid on debentures	30.1	(535,784,685)	(460,163,717)
Net cash from financing activities		(535,784,685)	4,039,836,283
Net increase/(decrease) in cash and cash equivalents		(4,348,266,457)	(574,092,545)
Cash and cash equivalents at the beginning of the year		13,987,283,176	14,561,375,721
Cash and cash equivalents at the end of the year		9,639,016,719	13,987,283,176
Reconciliation of cash and cash equivalents			
Cash and cash equivalent	17	689,184,136	572,294,808
Favourable balances with banks			
Placements with banks	18	6,496,692,932	6,682,475,675
Fixed deposits less than three months	21.2	2,520,602,739	6,897,553,288
Unfavourable balances with banks	28	(67,463,088)	(165,040,596)
		9,639,016,719	13,987,283,176

The amounts for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standard – SLFRS 9 – "Financial Instrument", whereas prior period amounts have not been restated.

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 103 to 180. The Report of the Auditors is given on page 94.

	Stated capital Note 34 LKR	Statutory reserve fund Note 35 LKR	Special reserve fund Note 37 LKR.	General reserve fund Note 37 LKR	Retained earnings Note 36 LKR	Total LKR
Balance as at 1 January 2017	1,370,936,931	599,455,675	453,846,003	2,586,422,452	988,284,444	5,998,945,505
Total comprehensive income for the year						
Profit for the year	–	–	–	–	1,283,929,506	1,283,929,506
Other comprehensive income	–	–	–	–	(170,126,351)	(170,126,351)
Total comprehensive income for the year	–	–	–	–	1,113,803,154	1,113,803,154
Transactions with equity holders, recognised directly in equity						
Issued stated capital	2,500,000,000	–	–	–	–	2,500,000,000
Transferred to statutory reserve fund	–	64,196,475	–	–	(64,196,475)	–
Transferred to special reserve fund	–	–	64,196,475	–	(64,196,475)	–
Transferred to general reserve fund	–	–	–	256,785,901	(256,785,901)	–
Transactions with equity holders, recognised directly in equity	2,500,000,000	64,196,475	64,196,475	256,785,901	(385,178,851)	2,500,000,000
Balance as at 31 December 2017	3,870,936,931	663,652,150	518,042,478	2,843,208,353	1,716,908,747	9,612,748,660
Balance as at 1 January 2018	3,870,936,931	663,652,150	518,042,478	2,843,208,353	1,716,908,747	9,612,748,660
Impact of adopting SLFRS 9 (Note 04)					(72,485,552)	(72,485,552)
Restated balance under SLFRS 09 as at 1 January 2018	3,870,936,931	663,652,150	518,042,478	2,843,208,353	1,644,423,196	9,540,263,108
Total comprehensive income for the year						
Profit for the year	–	–	–	–	1,073,586,361	1,073,586,361
Other comprehensive income	–	–	–	–	(80,027,837)	(80,027,837)
Total comprehensive income for the year	–	–	–	–	993,558,524	993,558,524
Transactions with equity holders, recognised directly in equity						
Issued stated capital	4,176,292,999	–	–	–	–	4,176,292,999
Transferred to statutory reserve fund	–	53,679,318	–	–	(53,679,318)	–
Transferred to special reserve fund	–	–	53,679,318	–	(53,679,318)	–
Transferred to general reserve fund	–	–	–	214,717,272	(214,717,272)	–
Transactions with equity holders, recognised directly in equity	4,176,292,999	53,679,318	53,679,318	214,717,272	(322,075,908)	4,176,292,999
Balance as at 31 December 2018	8,047,229,930	717,331,468	571,721,796	3,057,925,624	2,315,905,812	14,710,114,630

The financial statements are to be read in conjunction with the related Notes, which form a part of the financial statements of the Bank set out on pages 103 to 180. The Report of the Auditors is given on page 94.

1. Corporate information

1.1 General

Pradeshiya Sanwardana Bank can be traced back to as far as 1985 when district level banks under the category of Regional Rural Development Banks were established. Later in 1997, seventeen such Regional Development Banks were merged into six provincial level banks, which functioned as Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. In May 2010, these six banks were merged into one national level bank and designated as the Pradeshiya Sanwardana Bank. The Bank was established as a statutory body under the Pradeshiya Sanwardana Banking Act No. 41 of 2008. The registered office of the Bank is located at No. 933, Kandy Road, Wedamulla, Kelaniya.

Permanent, training and contract staff strength of the Bank as at 31 December 2018 was 3,381. (3,361 as at 31 December 2017).

1.2 Principal activities and nature of operations

The principal activities of the Bank are to facilitate the overall economic development of Sri Lanka by promoting the development of agriculture, industry, trade, commerce, livestock, fisheries activities and empowerment of women, mainly by granting financial assistance to Microfinance Institutions and Small and Medium Enterprises.

There were no significant changes in the nature of the principal activities of the Bank during the financial year under review.

1.3 Director's responsibility for financial statements

The Board of Directors is responsible for the preparation and presentation of these financial statements of the Bank, in compliance with provisions of the Pradeshiya Sanwardana Banking Act No. 41 of 2008 and its amendments, Banking Act No. 30 of 1988 and its amendments thereto and Sri Lanka Accounting Standards.

1.4 Approval of financial statements by Board of Directors

The financial statements of the Bank for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 10 May 2019.

2. Basis of preparation

2.1 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items:

- The liability for defined benefit obligation are actuarially valued and recognised as the present value of the defined benefit obligation.
- Financial assets held for trading are measured at fair value.

2.2 Statement of compliance

The financial statements, as at 31 December 2018 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardana Banking Act No. 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardana Banking Act No. 41 of 2008 and amendments thereto.

2.3 Functional and presentation currency

The financial statements of the Bank are presented in Sri Lanka Rupees, which is the currency of the primary economic environment in which Pradeshiya Sanwardana Bank operates. Financial information presented in Sri Lanka Rupees has been rounded to the nearest rupee unless indicated otherwise.

2.4 Presentation of financial statements

The items of the Bank presented in their statement of financial position 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 regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 45.

2.5 Materiality and aggregation

In compliance with LKAS 1 – "Presentation of financial statements", each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, 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 liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 Statement of cash flow

The cash flow statement has been prepared by using the Indirect Method in accordance with the Sri Lanka Accounting Standard – LKAS 7 – "Statement of Cash Flows". Cash and cash equivalents comprise cash in hand and 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.

Details of cash and cash equivalents are given in Note 17, Note 18 and Note 21.2 to financial statements.

Cash and cash equivalents include cash in hand, other bank balances, placement with banks, investments in fixed deposits (less than three month) and net of unfavourable bank balances.

2.7 Significant accounting judgements, estimates and assumptions

The preparation of financial statements of the Bank in conformity with Sri Lanka Accounting Standards requires the Management to make judgements, estimates, and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, the Management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur.

Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

2.7.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.7.2 Impairment losses on loans and advances

The measurement of impairment losses both under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

2.7.3 Taxation

The Bank is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, which results in adjustments to tax income and expenses and deferred tax amounts that were initially recorded in the financial statements. Note 14 and Note 26.

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profits will be available against which such tax losses can be set-off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

2.7.4 Defined benefit plans

The cost of the defined benefit plans and the present value of their obligations are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, the Management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increase rate of the Bank.

2.7.5 Useful lifetime of the property plant and equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as 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.

2.7.6 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

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 reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.7.7 Fair value of financial instruments

When the fair value of financial assets and financial liabilities, recorded in the statement of financial position cannot be derived from active markets, they are determined using variety of valuation techniques that include the use of mathematical models. The inputs of these models are taken from observable markets where possible, however if such data are not available, a degree of judgement is exercised in establishing fair values which minimise the effect of use of unobservable inputs.

3. Accounting policy and standard interpretation

3.1 Summary of significant accounting policies

The significant accounting policies applied by the Bank in preparation of the financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements of the Bank, unless otherwise indicated.

3.1.1 Financial instruments – Initial Recognition and Measurement

3.1.1.1 Date of recognition

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

3.1.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

3.1.1.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the income statement loss when the inputs become observable, or when the instrument is derecognised.

3.1.1.4 Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 3.1.1.4.1
- FVOCI, as explained in Note 3.1.1.4.4. and Note 3.1.1.4.5
- FVPL, as explained in Note 3.1.1.4.7

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available for sale or held to maturity (amortised cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

3.1.1.4.1 Due from banks, loans and advances to customers, financial assets at amortised cost

Before 1 January 2018, due from bank and loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available for sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available for sale.

From 1 January 2018, the Bank only measures due from banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

3.1.1.4.1 (a) Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.1.1.4.1 (b) The SPPI test

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

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

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

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

3.1.1.4.2 Derivatives recorded at fair value through profit or loss

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

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

Currently the Bank have not entered in to derivatives with any counter parties

3.1.1.4.2 (a) Embedded derivatives

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.

Under LKAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

From 1 January 2018, with the introduction of SLFRS 9, the Bank accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments as outlined above. Currently the Bank does not have any embedded derivatives.

3.1.1.4.3 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.1.1.4.4 Debt instruments at FVOCI (policy applicable from 1 January 2018)

The Bank applies the new category under SLFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

These instruments largely comprise assets that had previously been classified as financial investments available for sale under LKAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in the income statement in the same manner as for financial assets measured at amortised cost. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to the income statement.

3.1.1.4.5 Equity instruments at FVOCI (policy applicable from 1 January 2018)

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 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. Dividends are recognised in the income statement as net trading gain/(loss) when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.1.1.4.6 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3.1.1.4.7 Financial assets and financial liabilities at fair value through profit or loss

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or,
- The liabilities (and assets until 1 January 2018 under LKAS 39) are part of a group of financial liabilities (or financial assets, or both under LKAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or,
- The liabilities (and assets until 1 January 2018 under LKAS 39) 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.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL 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 the income statement. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in the income statement as net trading gain/(loss) when the right to the payment has been established.

3.1.1.4.8 Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. After initial recognition, 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 – under LKAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under SLFRS 9 – an ECL provision as set out in Note 32. The premium received is recognised in the income statement in net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with prespecified terms to the customer. Similar to financial guarantee contracts, under LKAS – 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 38.

3.1.1.4.9 Held-to-maturity financial assets (policy applicable before 1 January 2018)

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After the initial recognition, held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest rate, less impairment. The amortisation is included in "interest income" in the income statement. The losses arising from impairment of such assets are recognised in the income statement.

3.1.1.4.10 Available-for-sale financial assets (policy applicable before 1 January 2018)

Available-for-sale financial assets include equity and debt securities. Equity investments classified as "Available for sale" are those which are neither classified as "Held for trading nor designated at fair value through profit or loss" under the classification principles set out in LKAS 39. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity through "Other comprehensive income/expense" in the "Available-for-sale reserve". When the asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement under gain on financial assets. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding "Available-for-sale financial assets" is reported as "interest income" using the effective interest rate. Dividend earned whilst holding "Available-for-sale financial investments" are recognised in the income statement as "Net gain on financial assets" when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the income statement under "Impairment charge for loans and other losses" and removed from the "Available-for-sale reserve".

Details of "Financial assets - available for sale" are given in Note 22 to the financial statements.

3.1.1.5 Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017 and 2018

3.1.1.6 Derecognition of financial assets and liabilities

3.1.1.6.1 Derecognition due to substantial modification of terms and conditions

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

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

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

3.1.1.6.2 Derecognition other than for substantial modification

3.1.1.6.2 (a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either –

- The Bank has transferred its contractual rights to receive cash flows from the financial asset;

  Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the "original asset"), but assumes a contractual obligation to pay those cash flows to one or more entities (the "eventual recipients"), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset;

  Or,

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3.1.1.6.2 (b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.
The difference between the carrying value of the original financial liability and the consideration paid is recognised in the income statement.

3.1.1.7 Impairment of financial assets (policy applicable from 1 January 2018)

3.1.1.7.1 Overview of the ECL principles

As described above, the adoption of SLFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing LKAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under SLFRS 9.

The 12-month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained below.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The Bank does not have any POCI assets as of the reporting date.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

3.1.1.7.2 The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously recognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, either scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

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. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Bank considers three scenarios base case, best case, and worst case. Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value;

The mechanics of the ECL method are summarised below:

Stage 1: The 12-month ECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI : POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR. The Bank does not have any POCI assets as of the reporting date.

Financial Guarantee contracts: For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within provisions.

3.1.1.7.3 Calculations of ECL for individually significant loans

The Bank first assesses ECLs individually for financial assets that are individually significant to the Bank. In the event the Bank determines that such assets are not impaired (Not in stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If the asset is impaired the amount of the loss measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognised through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The extent of other creditors' commitments ranking ahead of, or pari-passu with the Bank and the likelihood of other creditors continuing to support the Bank;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The ability of the borrower to obtain and make payments in the currency of the loan if not denominated in local currency; and
- The likely dividend available on liquidation or bankruptcy

3.1.1.7.4 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the income statement. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

3.1.1.7.5 Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

3.1.1.7.6 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as –

- GDP growth
- Inflation rate
- Interest rates
- Exchange rate USD: Rs.
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Therefore, bank also considers the following qualitative factors:

- Average LTV
- Government policies
- Status of the industry business
- Regulatory impact

3.1.1.7.7 Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under SLFRS 9 is the same is it was under LKAS 39.

3.1.1.7.8 Collateral repossessed

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

3.1.1.7.9 Write-offs

The Bank's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3.1.1.8 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when the loan has been renegotiated or modified but not de-recognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 46.2. The Bank also considers whether the assets should be classified as Stage 3.

3.1.1.9 Foreclosed properties

Foreclosed properties represent properties that are acquired in full or partial satisfaction of debts the shortfall between the prevailing market value of the foreclosed asset and related loan outstanding is recognised as a provision for loan losses in the income statement during the year of acquiring the said property in satisfaction of debt.

3.1.1.10 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of Financial Position.

3.1.2 Property plant and equipment

Property, plant and equipment (PPE) are recognised if it is probable that future economic benefits associated with the assets will flow to the Bank and the cost of the asset can be reliably measured.

Items of PPE are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

The depreciation is recognised in the income statement on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use. Land is not depreciated. The estimated useful lives are as follows:

Building	5% Per annum
Computer equipment	20% Per annum
Office equipment	20% Per annum
Motor vehicles	20% Per annum
Furniture	15% Per annum
Iron safes	10% Per annum
Partition and fittings	20% Per annum

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank.

The carrying amount of an item of PPE is derecognised on 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 other operating income/expense in the income statement in the year the asset is derecognised.

Capital Work in Progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, awaiting capitalisation.

3.1.3 Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.1.3.1 Leases – Bank as a lessee

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in Note 3.1.2.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

3.1.4 Intangible assets

The Bank's other intangible assets include the value of computer software.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 3 years

3.1.5 Impairment of non–financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

3.1.6 Financial guarantees

"Financial guarantees" are contracts that require the Bank to make specific 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 the debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.1.7 Pension benefits

3.1.7.1 Defined benefit pension plan – Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard – LKAS 19 – "Employee Benefits".

3.1.7.2 Gratuity

In compliance with the Gratuity Act No.12 of 1983 provision is made in the accounts.

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31 December 2018 by M/s. Actuarial and Management Consultants (Pvt) Ltd. a qualified actuary using the projected unit credit method. Recognition of Actuarial gains and losses: The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

Funding Arrangements: The gratuity liability is not externally funded.

3.1.7.3 Defined contribution pension plan

"A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods" as defined in the Sri Lanka Accounting Standard - LKAS 19 – "Employee Benefits".

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under "personnel expenses" as and when they become due. Unpaid contributions are recorded as a liability.

1. Employees' Provident Fund
   The Bank and employees contribute to the Employees Provident Fund at 15% and 10% respectively.
2. Employees' Trust Fund
   The Bank contributes to the Employees' Trust Fund at 3%.

3.1.8 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

3.1.9 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

3.1.9.1 Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "Interest and similar income" for financial assets and Interest and similar expense for financial liabilities. However, for a reclassified financial asset (Refer Note 3.1.1.5) for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.1.9.2 Fees and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following category:

3.1.9.3 Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, loan service charges, inspection charges and stationary charges recovered from the customers.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

3.1.10 Taxation

As per Sri Lanka Accounting Standard – LKAS 12 – "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the income statement except to the extent it relates to items recognised directly in "Equity" or "Other Comprehensive Income (OCI)", in which case it is recognised in Equity or in OCI.

3.1.10.1 Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006, Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 14 to the financial statements.

3.1.10.2 Deferred tax

Deferred tax is recognised on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except –

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except –

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.1.10.3 VAT on financial services

VAT on financial services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.1.10.4 Nation building tax (NBT) on financial service

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 9 of 2009 and subsequent amendments thereto with effect from 1 January 2014. NBT on the financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

3.1.10.5 Withholding tax (WHT) on dividends

Dividend distributed out of taxable profit of the local subsidiaries attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank.

WHT that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

3.1.11 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

3.1.12 Earnings per share (EPS)

The Bank presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

3.2 New amendments to Accounting Standards effective from 1 January 2018

The Bank applied SLFRS 9, SLFRS 7 and SLFRS 15 which are effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective

3.2.1 SLFRS 9 – Financial Instruments

SLFRS 9 replaces LKAS 39 for annual periods on or after 1 January 2018. SLFRS 9 requires an entity to restate prior periods if and only if the restatement is possible without the use of hindsight. The Bank has not restated comparative information for 2017 for financial instruments within the scope of SLFRS 9. Therefore, the comparative information for 2017 is reported under LKAS 39 and is not comparable to the information presented for 2018. Difference arising from the adoption of SLFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 4.

3.2.1.1 Changes to classification and measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit and loss (FVPL), available for sale (AFS), held to maturity and loans and receivables (L&R) have been replaced by –

- Debt and other instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at (FVOCI), with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

Under SLFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting derivatives embedded in financial liabilities and in non-financial host contracts has not been changed.

The Bank's classification of its financial assets and liabilities is explained in Note 3.1.1.4. The Bank did not have any quantitative impact for the adoption of classification principles of SLFRS 9 as at 1 January 2018.

3.2.1.2 Changes to the impairment calculation

The adoption of SLFRS 9 has fundamentally changed the Bank's accounting for loan loss impairment by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Bank to record an impairment for ECLs for all loans and debt and other financial instruments not held at FVPL, together with loan commitments and financial guarantee contracts. The impairment is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case the impairment will be based on the ECLs associated with the probability of default over the entire lifetime of the loan.

Details of the Bank's impairment method are disclosed in Note 3.1.1.7 The quantitative impact of applying expected credit loss approach in SLFRS 9 as at 1 January 2018 is disclosed in Note 4.

3.2.1.3 SLFRS 7 – Financial Instruments: Disclosure

To reflect the differences between SLFRS 9 and LKAS 39, SLFRS 7 "Financial Instruments: Disclosures" was updated and the Bank has adopted it, together with SLFRS 9, for the year beginning 1 January 2018. Changes including transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 4, Note 3.1.1.7.1 and Note 46.2.

3.2.2 SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 became effective for financial periods beginning on or after 1 January 2018. The core principle of SLFRS 15 is that an entity has to recognise revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as discussed:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgement.

The Bank did not have any material impact on its fee and commission income with the adoption of SLFRS 15 for the year beginning 1 January 2018.

3.3 Standards issued but not yet effective as at 31 December 2018

The following Sri Lanka Accounting Standards have been issued by The Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2018. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 December 2018.

SLFRS 16 – Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. An entity shall apply this standard for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above standard has not been quantified yet.

4. Transition disclosures

The following notes set out the impact of adopting Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments" at transaction date, 1 January 2018 on the statement of financial position, and retained earnings including the effect of replacing incurred credit loss calculations under Sri Lanka Accounting Standard – LKAS 39 "Financial Instruments: recognition and Measurement" with expected credit loss (ECL) under SLFRS 9

Reclassification:

These adjustments reflect the movement of balances between categories on the statement of financial position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassification.

Remeasurement

These adjustments, which include expected credit loss, result in a change to the carrying value of the item on the statement of financial position with an impact to shareholders' equity net of tax.

Bank

As at 1 January 2018	Note	LKAS 39 Measurement Category	LKAS 39 Measurement Amount LKR	Reclassification LKR	Re-measurement ECL LKR	Other LKR	SLFRS 9 Amount LKR	SLFRS 9 Category
Financial asset								
Cash and cash equivalent		L&R	572,294,808	–	–	–	572,294,808	AC
Placements with banks		L&R	6,682,475,675	–	(77,532)	–	6,682,398,143	AC
Equity instruments at fair value through profit or loss		HFT	146,500	–	–	–	146,500	FVPL
Financial assets at amortised cost – Loans and receivables from other customers		L&R	127,508,812,394	–	(124,902,103)	–	127,383,910,291	AC
Financial investments at amortised cost – Debt and other instruments	A	L&R	28,130,079,912	–	(1,461,164)	–	28,128,618,748	AC
From: Financial assets held to maturity	A			2,512,362,500			2,512,362,500	AC
Financial assets available for sale		AFS	50,000	(50,000)			–	
To: Financial assets fair value through other comprehensive income	B		–	50,000	–	–	50,000	FVOCI
Financial assets held to maturity	A	HTM	2,512,362,500	(2,512,362,500)			–	
Other financial asset		L&R	1,238,738,759	–	–	–	1,238,738,759	AC

As at 1 January 2018	Note	LKAS 39 Measurement Category	Amount LKR	Reclassification LKR	Re-measurement ECL LKR	SLFRS 9 Other LKR	Amount LKR	Category
Non-financial asset								
Property, plant and equipment		n/a	1,204,892,835	–	–	–	1,204,892,835	n/a
Intangible assets		n/a	37,842,762	–	–	–	37,842,762	n/a
Deferred tax assets	E	n/a	343,878,698	–	–	55,183,960	399,062,658	n/a
Other non-financial assets		n/a	1,027,626,774	–	–	–	1,027,626,774	n/a
Total assets			169,259,201,616	–	(126,440,799)	55,183,960	169,187,944,777	
Financial liabilities								
Due to banks			10,729,312,134	–	–	–	10,729,312,134	AC
Due to other customers			139,827,364,797	–	–	–	139,827,364,797	AC
Debt issued and other borrowed funds			4,707,852,534	–	–	–	4,707,852,534	AC
Other financial liabilities	C		2,319,094,359	–	1,228,713	–	2,320,323,072	
Non-financial liabilities								
Current tax liabilities			365,502,454	–	–	–	365,502,454	n/a
Other non-financial liabilities			1,431,957	–	–	–	1,431,957	n/a
Retirement benefit obligation			1,695,894,720	–	–	–	1,695,894,720	n/a
Total liabilities			159,646,452,955	–	1,228,713	–	159,647,681,668	
Equity								
Stated capital			3,870,936,931	–	–	–	3,870,936,931	
Statutory reserve fund			663,652,150	–	–	–	663,652,150	
Retained earnings			1,716,908,747	–	–	(72,485,552)	1,644,423,196	
Other reserves			3,361,250,831	–	–	–	3,361,250,831	
Total equity			9,612,748,660	–	–	(72,485,552)	9,540,263,108	

L and R – Loans and receivables, HFT – Held for Trading, AFS – Available for Sale, HTM – Held to Maturity, FVPL – Fair value through profit or loss, FVOCI – Fair value through other comprehensive income, n/a-Not applicable

A As at 1 January 2018, the Bank elected to classify its previous investment in Sri Lanka Government securities as debt and other instruments measured at amortised cost since these assets met the "Solely Payments of Principal and Interest" (SPPI) criterion.

B Financial assets previously classified under available-for-sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 9.

C The carrying value of other financial liabilities charged under SLFRS 9 due to recognition of ECL provisions for financial guarantees,letter of credits, acceptances and other undrawn loan commitments (Note 32).

D The impact of SLFRS 9 remeasurements on deferred tax is set out below under Note E.

E The impact on retained earnings by transition to SLFRS 09 is as follows:

Closing balance under LKAS 39 as at 31 December 2017	1,716,908,747
Remeasurement adjustments on adoption of SLFRS 9	
Recognition of SLFRS 9 ECLs for loans and investments	(127,669,512)
Deferred tax on above	35,747,463
Deferred tax on other adjustments related to SLFRS 9	19,436,497
Total charge in equity due to adoption of SLFRS 9	(72,485,552)
Opening balance under SLFRS 9 as 1 January 2018	1,644,423,195

The impact of transition to SLFRS 9 on reserves and retained earnings are, as follows:

	Loan loss provision under LKAS 39 LKAS 37 LKR	Remeasurement LKR	ECLs under SLFRS 9 at 1 January 2018 LKR
Impairment allowance for:			
Placements with banks	–	77,532	77,532
Loans and advances to customers	1,790,452,775	124,902,103	1,915,354,878
Debt instruments at amortised cost	–	1,461,164	1,461,164
Credit-related commitment and contingencies	–	1,228,713	1,228,713
	1,790,452,775	127,669,512	1,918,122,287

5. Gross income

For the year ended 31 December	Note	2018 LKR	2017 LKR
Interest income	6.1	**24,865,108,981**	20,908,493,021
Fee and commission income	7	**1,186,795,173**	1,101,825,405
Net trading gain/(loss)	8	**1,215,762**	1,079,185
Other operating income	9	**17,490,689**	4,673,967
Total gross income		**26,070,610,605**	22,016,071,577

6 Net interest income

6.1 Interest income

For the year ended 31 December	2018 LKR	2017 LKR
Placements with banks	**494,336,946**	83,499,352
Financial assets at amortised cost:		
Loans and receivables from other customers	**21,016,590,253**	17,542,476,965
Debt and other instruments	**3,354,181,783**	3,282,516,704
Total interest income	**24,865,108,981**	20,908,493,021

6.2 Interest expenses

For the Year ended 31 December	2018 LKR	2017 LKR
Due to banks	(1,000,002,236)	(963,057,237)
Due to other customers	(11,959,524,473)	(10,270,227,255)
Total interest expenses	(12,959,526,709)	(11,233,284,493)
Net interest income	11,905,582,272	9,675,208,528

6.3 Notional tax credit on secondary market transactions

In terms of the Section 137 of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, a company which derives income from the secondary market transactions involving any security or treasury bonds or treasury bills on which the income tax has been deducted at the rate of 10% at the time of issue of such security, such company is entitled to a notional tax credit at 10% of the grossed-up amount of net interest income from such secondary market transaction to an amount of one-ninth of the same. Accordingly, the net interest income earned by the Bank from above transactions has been grossed-up in the financial statements for the year ended 31 December 2018 and the notional tax credit amounts to LKR 12,233,657.00 (LKR 8,754,380.00)

7. Net fee and commission income

For the year ended 31 December	2018 LKR	2017 LKR
Fee and commission income	1,186,795,173	1,101,825,405
Fee and commission expenses	(259,105,166)	(181,086,441)
Net fee and commission income	927,690,007	920,738,964
Comprising		
Loans	905,397,905	972,849,082
Trade and remittances	6,582,445	5,394,635
Deposits	(239,902,296)	(166,176,255)
Others	255,611,952	108,671,502
Net fee and commission income	927,690,007	920,738,964

8. Net trading gain/(loss)

For the year ended 31 December	2018 LKR	2017 LKR
Net mark-to-market loss – Equity securities	(30,900)	(7,700)
Dividend income	1,246,662	1,086,885
Total	1,215,762	1,079,185

9. Other operating income (net)

For the year ended 31 December	2018 LKR	2017 LKR
Gain/(Loss) on sale of property, plant and equipment	11,206,047	860,208
ATM income	4,551,002	3,134,123
Recoveries of NPL loans	1,733,639	679,636
Other operating income (net)	17,490,689	4,673,967

10. Impairment charges

For the year ended 31 December	2018 LKR	2017 LKR
Placement with banks (Note 18)	12,653	n/a
Loans and receivables from other customer		
Collective impairment (Note 20.2)	(1,265,040,780)	(294,227,267)
Individual impairment (Note 20.2)	(144,614,042)	(149,639,564)
Financial assets at amortised cost-debt and other instruments		
Debentures (Note 21.1.2)	2,840	n/a
Investment in fixed deposit (Note 21.2.2)	342,187	n/a
Credit-related commitment and contingencies	(486,954)	n/a
Net impairment (charge)/reversal for loans and other losses	(1,409,784,095)	(443,866,831)

11. Personnel expenses

For the year ended 31 December	2018 LKR	2017 LKR
Salary and bonus	3,612,325,825	2,930,498,761
Contributions to defined benefit plans	265,384,959	227,861,027
Others	2,000,236,009	1,822,075,810
Total	5,877,946,793	4,980,435,598

12. Other expenses

For the year ended 31 December	2018 LKR	2017 LKR
Directors' emoluments	3,200,919	5,109,865
Auditors' remunerations	2,455,250	2,200,000
Professional and legal expenses	24,893,448	20,417,418
Office administration and establishment expenses	1,331,786,648	1,166,027,818
Computerisation expenses	128,432,876	86,555,333
Business tax expenses	1,045,833	549,416
Other commission paid	185,670	37,489
Savings insurance fund	132,813,463	127,831,947
Crop insurance levy	10,332,117	7,157,696
Staff security deposits interest	3,750,542	3,384,653
Capital loss on pawning advance	–	30,828
Total	1,638,896,765	1,419,302,464

13. Taxes on financial services

For the year ended 31 December	2018 LKR	2017 LKR
Nation building tax	154,490,412	131,325,757
Value added tax	1,158,678,090	984,943,174
Debt repayment levy	190,079,946	–
Total	1,503,248,448	1,116,268,931

14. Tax expenses

For the year ended 31 December	2018 LKR	2017 LKR
Income taxation		
Taxation based on profits for the year (Note 14.1)	1,072,147,126	978,574,649
(Over)/Under provision in respect of 2017/18 year (Note 14.2 (a))	(5,503,331)	(4,342,727)
(Over)/Under provision in respect of 2014/15 and 2015/16 year (Note 14.2 (b))	–	(7,366,844)
Origination/(Reversal) of Temporary Differences (Note 14.1)	(37,148,265)	(60,068,839)
Total	1,029,495,530	906,796,239

14.1 Reconciliation of tax expenses

For the year ended 31 December	2018 LKR	2017 LKR
Profit/(loss) before tax	2,103,081,891	2,190,725,745
Add: Tax effect of expenses that are not deductible for tax purposes	3,396,456,057	1,834,351,789
(Less): Tax effect of expenses that are deductible for tax purposes	(1,670,441,068)	(530,168,074)
Taxable profit	3,829,096,880	3,494,909,460
Income tax for the period (taxable profit @ applicable tax rate)	28%	28%
Current tax expense for the period	1,072,147,126.47	978,574,649
Deferred tax charge/(reversal) (Note 26.2)	(37,148,264)	(60,068,839)
Income tax expense	1,034,998,862	918,505,810
(Over)/Under provision in respect of 2017/18 year (Note 14.2 (a))	(5,503,331)	(11,709,571)
Income tax expense	1,029,495,531	906,796,239
Effective tax rate	49%	41%

14.2 (Over)/Under provision in respect of previous year

14.2 (a) During the period tax payable amount corrected as per the income tax return submitted to the Department of Inland Revenue for the year of assessment 2017/18.

14.2 (b) During the 2014/15 and 2015/16 period tax payable amount corrected as per the Department of Inland Revenue and finalised the said period income tax liability.

15. Earnings per share

15.1 In accordance with the Sri Lanka Accounting Standard – LKAS 33 "Earnings per Share", basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

For the year ended 31 December	2018 LKR	2017 LKR
Net profit attributable to ordinary equity holders of the Bank	1,073,586,361	1,283,929,506
Net profit attributable to ordinary equity holders	1,073,586,361	1,283,929,506
	Numbers	Numbers
Weighted average number of ordinary shares in issue	139,581,401	139,148,488
Basic earnings per ordinary share	7.69	9.23

16. Analysis of financial instruments by measurement basis

(a) Bank – Current year (2018)

As at 31 December	Note	FVTPL LKR	AC LKR	FVOCI LKR	Total LKR
Assets					
Cash and cash equivalent	17	–	689,184,136	–	689,184,136
Placements with banks	18	–	6,496,628,053	–	6,496,628,053
Equity instruments at fair value through profit or loss	19	115,600	–	–	115,600
Financial assets at amortised cost – Loans and receivables from other customers	20	–	133,432,804,004	–	133,432,804,004
Financial investments at amortised cost – Debt and other instruments	21	–	27,757,513,965	–	27,757,513,965
Equity instruments at fair value through other comprehensive income	22	–	–	4,176,342,999	4,176,342,999
Other financial assets	27	–	1,448,173,102	–	1,448,173,102
Total financial assets		115,600	169,824,303,260	4,176,342,999	174,000,761,859

(b) Bank – Current year (2018)

As at 31 December	Note	Amortised cost LKR	Total LKR
Liabilities			
Due to banks	28	11,098,334,822	11,098,334,822
Due to other customers	29	141,559,973,557	141,559,973,557
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Other liabilities	32	1,714,679,920	1,714,679,920
Total financial liabilities		159,080,840,833	159,080,840,833

(a) Bank – Previous year (2017)

As at 31 December	Note	FVTPL LKR	HTM LKR	L & R LKR	AFS LKR	Total LKR
Assets						
Cash and cash equivalent	17	–	–	572,294,808	–	572,294,808
Placements with banks	18	–	–	6,682,475,675	–	6,682,475,675
Financial assets held-for-trading/equity instruments at fair value through profit or loss	19	146,500	–	–	–	146,500
Financial assets at amortised cost – Loans and receivables from other customers	20	–	–	127,508,812,394	–	127,508,812,394
Financial assets at amortised cost – Debt and other instruments	21	–	–	28,130,079,911	–	28,130,079,911
Financial assets available for sale	22	–	–	–	50,000	50,000
Financial assets held to maturity	23	–	2,512,362,500	–	–	2,512,362,500
Other financial assets	27			1,238,738,759	–	1,238,738,759
Total financial assets		146,500	2,512,362,500	162,893,662,789	50,000	165,406,221,789

(b) Bank – Previous year (2017)

As at 31 December	Note	Amortised cost LKR	Total LKR
Liabilities			
Due to banks	28	10,729,312,134	10,729,312,134
Due to other customers	29	139,827,364,797	139,827,364,797
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Other liabilities	32	1,798,721,924	1,798,721,924
Total financial liabilities		157,063,251,389	157,063,251,389

17. Cash and cash equivalent

As at 31 December	2018 LKR	2017 LKR
Cash in hand	**539,995,648**	482,919,655
Other bank balances	**149,188,488**	89,375,154
Total	**689,184,136**	572,294,808

18. Placements with banks

As at 31 December	2018 LKR	2017 LKR
Money market placements	6,496,692,932	6,682,475,675
Less: Impairment for expected credit losses (Note 18.1)	(64,879)	n/a
Total	6,496,628,053	6,682,475,675

18.1 Analysis of placements with banks based on exposure to credit risk

As at 31 December 2018	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Money market placements	6,496,692,932	–	–	6,496,692,932
Impairment for expected credit losses (Note 18.2)	(64,879)	–	–	(64,879)
	6,496,628,053	–	–	6,496,628,053

18.2 Impairment for expected credit losses – Placements with banks

For the year ended 31 December	2018 LKR
Balance as at 1 January	77,532
Net reversal for the year (Note 10)	(12,653)
	64,879

19. Equity instruments at fair value through profit or loss

	2018			2017		
	Number of shares	Cost of investment LKR	Market value LKR	Number of Shares LKR	Cost of investment LKR	Market value LKR
People's Merchant Bank PLC	600	12,000	6,600	600	12,000	7,500
Seylan Development PLC	10,000	150,000	109,000	10,000	150,000	139,000
	10,600	162,000	115,600	10,600	162,000	146,500

19.1 Movement during the year

As at 31 December	2018 LKR	2017 LKR
Balance as at 1 January	146,500	154,200
Change in fair value during the year	(30,900)	(7,700)
Balance as at 31 December	115,600	146,500

20. Loans and receivables from other customers

As at 31 December	2018 LKR	2017 LKR
Gross loans and receivables	137,769,683,363	130,324,845,514
(Less): Zero rate loan fair value adjustment	(8,596,304)	(106,515,708)
	137,761,087,059	130,218,329,805
(Less): Staff loan fair value adjustment	(830,165,393)	(745,241,375)
	136,930,921,667	129,473,088,430
(Less): Collective impairment charges (Note 20.2)	(3,179,680,359)	(1,790,452,774)
(Less): Individual impairment charges (Note 20.2)	(318,437,304)	(173,823,262)
Net loans and receivables from other customers	133,432,804,004	127,508,812,394

20.1 Analysis

As at 31 December	2018 LKR	2017 LKR
By product		
Pawning	11,454,807,949	10,260,859,056
Staff loans	3,478,770,159	3,506,188,568
Short-term	9,181,224,723	7,891,927,873
Long-term	113,654,880,532	108,665,870,018
Gross total	137,769,683,363	130,324,845,514
By currency		
Sri Lankan Rupee	137,769,683,363	130,324,845,514
Gross total	137,769,683,363	130,324,845,514
By industry		
Agriculture and fishing	36,860,350,948	31,114,661,240
Manufacturing	22,906,922,131	21,565,930,042
Transport	244,473,642	338,979,358
Construction/Housing	28,086,234,943	32,267,630,204
Traders	22,819,454,960	20,531,645,629
Others (consumptions/against deposit/staff/tourism)	26,852,246,739	24,505,999,040
Gross total	137,769,683,363	130,324,845,514
By CBSL		
Performing	130,506,460,771	126,133,962,706
Special mention	1,322,576,677	985,984,132
Substandard	2,079,994,921	884,759,741
Doubtful	1,431,175,575	533,000,080
Loss	2,429,475,419	1,787,138,855
Gross total	137,769,683,363	130,324,845,514

20.2 Impairment for credit losses – Loans to and receivables from other customers

	Individual LKR	Collective LKR	Total LKR
Balance as at 1 January 2017	24,183,698	1,504,274,860	1,528,458,558
Net charge to profit or loss	149,639,564	294,227,267	443,866,831
Write-off during the period	–	–	–
Interest income accrued on impaired loans and receivables	–	–	–
Other movements	–	(8,049,353)	(8,049,353)
Balance as at 31 December 2017	173,823,262	1,790,452,774	1,964,276,036
Impact on adoption of SLFRS 9 as at 1 January 2018 (Note 4)	–	124,902,103	124,902,103
Balance as at 1 January 2018 (SLFRS 9)	173,823,262	1,915,354,877	2,089,178,139
Net charge to profit or loss	144,614,042	1,265,040,780	1,409,654,822
Write-off during the period	–	(860,361)	(860,361)
Other movements	–	145,063	145,063
Balance as at 31 December 2018	318,437,304	3,179,680,359	3,498,117,664

20.3 Movement in impairment for expected credit losses based on exposure to credit risk

A further analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below:

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Balance as at 1 January 2018 (Note a)	734,045,039	1,029,494,477	843,681,100	2,607,220,617
Write-off during the period	–	–	(860,361)	(860,361)
Other movements	–	–	145,063	145,063
Net charge to profit or loss (Note b)	282,206,799	(100,701,284)	710,106,830	891,612,344
Balance as at 31 December 2018	1,016,251,838	928,793,193	1,553,072,633	3,498,117,664

(a) The collective impairment provision for the year 2017 is recognised net of the funds available in the Special Reserve Fund (created to provide for bad and doubtful debts of the Bank as per the Section 23 of Pradeshiya Sanwardana Bank Act No. 41 of 2008) as disclosed below:

As at 31 December	2017 LKR
Collective impairment recognised on loans and receivables (Note 20)	1,790,452,774
Individual impairment recognised on loans and receivables (Note 20)	173,823,262
	1,964,276,036
Collective impairment not recognised	518,042,477
	2,482,318,514
Impact on adoption of SLFRS 9	124,902,103
	2,607,220,617

(b) Net charge to profit or loss in current year

As at 31 December	2017 LKR
Net charge to profit or loss	891,612,344
Collective impairment not recognised in prior year	518,042,477
	1,409,654,822

20.4 Analysis of loans and receivables from other customers based on exposure to credit risk

As at 31 December 2018	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Individually impaired loans	–	–	1,098,887,753	1,098,887,753
Loans subjected to collective impairment:				
Term loan other	2,599,981,983	183,427,854	75,641,719	2,859,051,556
Term loan industrial	10,178,305,534	4,645,631,063	1,017,755,408	15,841,692,004
Term loan commercial	13,095,235,907	5,305,816,655	1,370,300,662	19,771,353,224
Term loan agriculture	14,101,252,990	3,590,833,248	885,285,221	18,577,371,459
Term loan housing	31,230,665,579	4,699,457,789	1,584,128,691	37,514,252,058
Refinance	13,247,616,246	6,570,833,704	1,483,099,007	21,301,548,956
Liyaisura	38,792,404	12,713,935	50,885,732	102,392,072
Pawning	10,640,356,600	701,464,586	39,613,861	11,381,435,047
Staff loans	3,533,757,648	–	–	3,533,757,648
Loans against deposits	5,787,941,585	–	–	5,787,941,585
Gross loans and receivable from other customers	104,453,906,475	25,710,178,835	7,605,598,053	137,769,683,363
Impairment for expected credit losses (Note 20.3)	(1,016,251,838)	(928,793,193)	(1,553,072,633)	(3,498,117,664)
Net loans and receivable from other customers (before zero rated loan and staff loan adjustments)	103,437,654,637	24,781,385,642	6,052,525,420	134,271,565,699

21 Financial investments at amortised cost – Debt and other instruments

As at 31 December	2018* LKR	2017 LKR
Debentures – Quoted (Note 21.1)	516,934,932	516,934,931
Government debt securities – Treasury bills and bonds	2,512,362,500	n/a
Investment in fixed deposits (Note 21.2)	24,729,332,669	27,613,144,980
Sub total	27,758,630,101	28,130,079,911
Less: Impairment for expected credit losses – Debentures (Note 21.1.1)	(8,820)	n/a
Less: Impairment for expected credit losses – Fixed deposits (Note 21.2.1)	(1,107,316)	n/a
Total	27,757,513,965	28,130,079,911

**The amounts for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments), whereas prior period amounts have not been restated.*

21.1 Debentures – Quoted

	2018			2017		
	Number of debentures	Cost of investment LKR	Amortised cost LKR	Number of debentures LKR	Cost of investment LKR	Amortised cost LKR
Commercial Bank of Ceylon PLC	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,934,932
Total	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,934,932

21.1.1 Analysis of debentures based on exposure to credit risk

As at 31 December 2018	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Debentures – Quoted	516,934,932	–	–	516,934,932
Impairment for expected credit losses (Note 21.1.2)	(8,820)	–	–	(8,820)
	516,926,112	–	–	516,926,112

21.1.2 Impairment for expected credit losses – Debentures quoted

	2018 LKR
Balance as at 1 January	11,660
Net reversal for the year	(2,840)
Amounts written off during the year	–
Other adjustments including exchange rate differences	–
	8,820

21.2 Investment in fixed deposits

As at 31 December	2018 LKR	2017 LKR
Fixed deposits less than three months	2,520,602,739	6,897,553,288
Fixed deposits more than three months	22,208,729,930	20,715,591,692
Total	24,729,332,669	27,613,144,980

21.2.1 Analysis of investment in fixed deposits based on exposure to credit risk

As at 31 December 2018	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Investment in fixed deposit	24,729,332,669	–	–	24,729,332,669
Impairment for expected credit losses (Note 21.2.2)	(1,107,316)	–	–	(1,107,316)
	24,728,225,353	–	–	24,728,225,353

21.2.2 Impairment for expected credit losses – Investment in fixed deposits

As at 31 December	2018 LKR
Balance as at 1 January	1,449,503
Net reversal for the year	(342,187)
Amounts written off during the year	–
Other adjustments including exchange rate differences	–
	1,107,316

22. Equity instruments at fair value through other comprehensive income/financial assets – Available for sale

Equity instruments at fair value through other comprehensive income

As at 31 December	2018 LKR	2017 LKR
Unquoted equity securities (Note 22.1)	4,176,342,999	n/a
	4,176,342,999	n/a

Equity instruments at fair value through other comprehensive income

As at 31 December	2018 LKR	2017 LKR
Unquoted equity securities (Note 22.1)	n/a	50,000
	n/a	50,000

22.1 Unquoted equity securities

As at 31 December 2018	2018 Number of shares/	2018 Cost of investment LKR	2018 Market value LKR	2017 Number of shares/	2017 Cost of investment LKR	2017 Market value LKR
CRIB	500	50,000	50,000	500	50,000	50,000
Lankaputhra Development Bank (Note 22.2)	158,013,356	4,176,292,999	4,176,292,999	–	–	–
Total	158,013,856	4,176,342,999	4,176,342,999	500	50,000	50,000

22.2 Lankaputhra Development Bank

Lankaputhra Development Bank is a licensed specialised bank registered in Sri Lanka.
On 31 December 2018 the Bank acquired 100% equity stake in Lankaputhra Development Bank, in line with Government Budget proposal for the year 2016 thereby proposing Lankaputhra Development Bank (LDB) to be merged with Regional Development Bank and upon receipt of cabinet approval in favour on 14 February 2018.

The investment does not qualify to be a subsidiary as the Bank (PSB) did not have the controlling power which remained with the Ministry of Finance and Mas Media as at 31 December 2018 and previous Board of Directors continued till 31 March 2019 . RDB acquired the entire shareholding at LDB for a purchase consideration of LKR 4.176 Bn. and the purchase consideration was settled by way of new share issue for the said value in favour of General Treasury effective on 31 December 2018.

23. Financial assets – Held to maturity

As at 31 December	2018* LKR	2017 LKR
Government debt securities – Treasury bills and bonds	n/a	2,512,362,500
	n/a	2,512,362,500

**The amounts for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments", whereas prior period amounts have not been restated.*

24. Property, plant and equipment

24.1 Property plant and equipment

	2018						
	Land and buildings LKR	Computer hardware LKR	Office equipment, furniture and fittings LKR	Motor vehicles LKR	Working progress LKR	Partition and fittings LKR	Total LKR
2018 (Current year) Cost/Fair value							
Opening balance at 1 January 2018	474,820,077	564,054,457	1,008,650,979	279,615,973	56,423,650	257,691,416	2,641,256,552
Additions	27,416,967	56,376,187	169,561,538	–	42,107,419	67,559,345	363,021,456
Disposals	–	(51,157,499)	(12,849,083)	(6,325,615)	–	(733,464)	(71,065,661)
Transfers during the year	33,221,056	–	–	–	(33,221,056)	–	–
Reclassification adjustments	–	–	1,089,635	–	–	(1,089,635)	–
Closing balance at 31 December 2018	535,458,100	569,273,145	1,166,453,069	273,290,358	65,310,013	323,427,662	2,933,212,347
Finance lease							
Opening balance at 1 January 2018	–	–	–	103,924,400	–	–	103,924,400
Additions	–	–	–	–	–	–	–
Closing balance at 31 December 2018	–	–	–	103,924,400	–	–	103,924,400
(Less): Accumulated depreciation							
Opening balance at 1 January 2018	106,741,385	393,426,867	646,932,934	192,391,406	–	113,311,500	1,452,804,092
Charge for the year	19,276,777	59,727,877	111,475,598	31,413,844	–	55,337,781	277,231,877
Disposals	–	(50,728,103)	(12,532,945)	(6,325,605)	–	(675,603)	(70,262,256)
Reclassification adjustments	–	–	(9,991)	–	–	–	(9,991)
Closing balance at 31 December 2018	126,018,162	402,426,641	745,865,596	217,479,645	–	167,973,678	1,659,763,722
Finance lease							
Opening balance at 1 January 2018	–	–	–	87,484,026	–	–	87,484,026
Charge for the year	–	–	–	14,103,396	–	–	14,103,396
Closing balance at 31 December 2018	–	–	–	101,587,422	–	–	101,587,422
(Less): Impairment charges	–	–	–	–	–	–	–
Net book value at 31 December 2018	409,439,938	166,846,504	420,587,473	58,147,691	65,310,013	155,453,984	1,275,785,603

	2017						
	Land and buildings LKR	Computer hardware LKR	Office equipment, furniture and fittings LKR	Motor vehicles LKR	Working progress LKR	Partition and fttings LKR	Total LKR
2017 **(Previous year) Cost/Fair value**							
Opening balance at 1 January 2017	425,737,406	511,606,202	883,046,653	264,452,969	69,152,961	204,281,292	2,358,277,483
Additions	8,504,695	61,549,350	136,196,998	15,961,183	27,848,666	53,936,987	303,997,879
Disposals	–	(9,085,452)	(10,938,880)	(798,179)	–	(196,829)	(21,019,339)
Transfers during the year	40,577,976	–	–	–	(40,577,976)	–	–
Reclassification adjustments	–	(15,643)	346,206	–	–	(330,035)	528
Closing balance at 31 December 2017	474,820,077	564,054,457	1,008,650,979	279,615,973	56,423,650	257,691,416	2,641,256,552
Finance lease							
Opening balance at 1 January 2017	–	–	–	103,924,400	–	–	103,924,400
Additions	–	–	–	–	–	–	–
Closing balance at 31 December 2017	–	–	–	103,924,400	–	–	103,924,400
(Less): Accumulated depreciation							
Opening balance at 1 January 2017	88,008,252	334,228,374	557,814,168	162,908,942	–	66,032,616	1,208,992,352
Charge for the year	18,733,133	68,256,202	99,891,894	30,280,633		47,481,646	264,643,508
Disposals	–	(9,074,492)	(10,890,058)	(798,169)	–	(99,731)	(20,862,450)
Reclassification adjustments	–	16,783	116,930	–	–	(103,031)	30,682
Closing balance at 31 December 2017	106,741,385	393,426,867	646,932,934	192,391,406	–	113,311,500	1,452,804,092
Finance lease							
Opening balance at 1 January 2017	–	–	–	66,811,876	–	–	66,811,876
Charge for the year	–	–	–	20,672,150	–	–	20,672,150
Closing balance at 31December 2017	–	–	–	87,484,026	–	–	87,484,026
(Less): Impairment charges	–	–	–	–	–	–	–
Net book value at 31 December 2017	368,078,692	170,627,590	361,718,044	103,664,941	56,423,650	144,379,917	1,204,892,835

24.2 Fully depreciated property, plant and equipment

A class-wise analysis of the initial cost of fully depreciated property, plant and equipment of the Bank which are still in use as at reporting date is as follows:

As at 31 December	2018 LKR	2017 LKR
Asset class		
Building	1,074,447	1,844,583
Computer, hardware	260,937,120	316,531,342
Office, equipment, furniture and fittings	827,789,963	406,411,837
Motor vehicles	191,511,256	128,322,504
Partition and fittings	5,152,049	4,613,656
	1,286,464,835	857,723,922

24.3 Title restrictions on property, plant and equipment

There were no title restrictions on property, plant and equipment of the Bank as at the reporting date.

24.4 Property, plant and equipment pledged as security for liabilities

No freehold property, plant and equipment have been pledged as security for any liability.

24.5 Compensation from third parties for items of property, plant and equipment

There were no compensation received/receivable from third parties for items of property, plant and equipment which were impaired of given up.

24.6 Temporally idle property, plant and equipment

There were no temporally idle property, plant and equipment as at the reporting date.

24.7 The details of freehold land and buildings held by the Bank as at 31 December 2018 are as follows:

Name of premises and address	Extent (perches)	Building (square feet)
Central Province		
Matale – No. 62, Main Street, Matale	4.8	2,280
Dambulla – No. 734, Anuradhapura Road, Dambulla	8.2	2,210
Galewela – Dambulla Road, Galewela	8.7	2,380
Wilgamuwa – Hettipola, Wilgamuwa	38.0	1,740
Agarapathana – No.158, Hoolbrook, Agarapatana	10.8	1,598
Naula – No. 26, Dambulla Road, Naula	20.0	1,640
North Central Province		
Mihintale – Trincomalee Road, Mihintale	20.0	6,359
Medawachchiya – Mannar Road, Madawachchiya	34.0	4,371
Galenbindunuwewa – Pola Road, Galenbidunuwewa	70.0	1,687
Medirigiriya – Main Street, Madirigiriya	40.0	–
Siripura – New Town, Siripura	30.0	4,973
Thirappane – Kandy Road, Thirappane	65.4	8,030
North Western Province		
Mawathagama – Kandy Road, Mawathagama	21.5	–
P/O Kurunegala – No. 155, Negombo Rd, Kurunegala	14.0	8,484
Polpithigama – Kurunegala Road, Polpitigama	20.0	2,784
Mampuri – Kalpitiya Road, Mampuri	80.0	15,181
Palakuda – Kalpiti Road, Thalawila	20.3	2,244
Nattandiya – Marawila Road, Nattandiya	15.7	1,200
Puttlam – Kurunegala Road, Puttlam	51.0	1,250
Wariyapola – No. 29/4, Adhikari Mawatha, Wariyapola.	10.0	6,208
Southern Province		
Kekanadura – Weherahena Road, Kekanadura	12.0	1,704
Akmeemana – Ganegoda, Akmeemana	6.5	1,614
Galle Branch – No. 301, Matara Road, Magalle, Galle	30.0	5,820
Katuwana – Uda Gomadiya Road, Katuwana	39.1	16,480
Tangalle – No. 81, Beliatta Road, Tangalle	16.0	–
Uragasmanhandiya – Kosgoda Road, Uragasmanhandiya	20.0	1,940
Ambalantota – No. 139, Hambantota Road, Ambalantota	25.0	2,568
Agunakolapelessa – Ranna Road, Agunakolapelessa	12.0	2,371
D/O Galle – No. 301, Matara Road, Magalle, Galle	30.0	4,820
Uva Province		
Girandurukotte – Development Centre, Girandurukotte		2,920
Monaragala D/O – Monaragala Road, Buttala.		1,613
H/O – No 933, Kandy Road, Wedamulla, Kelaniya	24.0	5,375
Sabaragamuwa Province		
Balangoda – No. 17, Rest House Approach Road, Balangoda	20.0	–
Total		

Date of valuation	Cost of land LKR	Cost of building LKR	Total value LKR	Accumulated depreciation LKR	Written down value LKR
26 December 2014	–	11,915,631	11,915,631	2,391,288	9,524,343
18 December 2003	–	2,851,908	2,851,908	1,858,113	993,795
1 March 2008	–	6,540,518	6,540,518	3,542,791	2,997,728
24 August 2009	–	7,581,277	7,581,277	4,143,949	3,437,328
17 August 2012	–	1,260,000	1,260,000	600,000	660,000
25 February 1998	–	2,471,252	2,471,252	2,100,566	370,687
30 December 2005	–	8,859,427	8,859,427	5,750,457	3,108,969
19 March 2013	–	16,192,223	16,192,223	4,857,667	11,334,556
14 March 2013	–	3,124,975	3,124,975	1,590,831	1,534,144
31 December 2007	–	9,643,650	9,643,650	5,312,651	4,330,999
24 February 2016	–	22,291,625	22,291,625	3,179,297	19,112,328
8 December 2016	379,869	6,761,474	7,141,343	1,104,617	6,036,726
3 March 2016	–	10,801,311	10,801,311	–	10,801,311
29 December 2004	–	18,200,366	18,200,366	8,525,948	9,674,418
30 December 2014	–	17,504,901	17,504,901	3,573,917	13,930,984
30 December 2014	–	25,188,128	25,188,128	5,014,972	20,173,156
25 March 2003	–	5,792,157	5,792,157	2,684,739	3,107,418
11 February 2003	–	36,590,162	36,590,162	937,967	35,652,195
26 June 2006	–	3,802,742	3,802,742	1,511,364	2,291,378
12 November 2013	–	35,609,963	35,609,963	5,048,316	30,561,647
10 May 2004	1,418,000	1,194,535	2,612,535	835,902	1,776,633
2 October 1993	–	600,000	600,000	599,999	1
9 October 1999	–	4,712,509	4,712,509	3,062,055	1,650,454
22 March 2001	1,320,000	7,406,958	8,726,958	5,183,180	3,543,778
5 May 2005	1,620,667	1,675,534	3,296,201	1,423,822	1,872,379
10 April 2012	–	13,354,618	13,354,618	4,491,176	8,863,442
30 August 2004	2,000,000	3,070,100	5,070,100	2,148,369	2,921,731
27 August 2001	–	3,470,348	3,470,348	1,997,740	1,472,608
8 October 1999	1,750,000	4,884,716	6,634,716	3,140,901	3,493,815
30 November 2011	–	3,227,674	3,227,674	1,201,384	2,026,291
22 October 1999	4,312,263	–	4,312,263	2,368,879	1,943,384.2
5 March 2012	80,419,000	139,371,952	219,790,952	35,835,305	183,955,647.9
18 February 2013	6,285,664	–	6,285,664	–	6,285,664.0
	99,505,463	435,952,636	535,458,100	126,018,162	409,439,938

25. Intangible assets

As at 31 December	2018 LKR	2017 LKR
Computer software		
Opening balance as at 1 January	178,040,183	157,437,556
Additions	50,630,424	20,602,627
Closing balance as at 31 December	228,670,607	178,040,183
(Less): Amortisation		
Opening balance as at 1 January	140,197,422	99,412,004
Charge for the year	27,685,466	40,785,417
Closing balance as at 31 December	167,882,888	140,197,422
Net book value	60,787,719	37,842,762

26. Deferred tax assets/liabilities

As at 31 December	2018 LKR	2017 LKR
Deferred tax asset	(624,199,853)	(474,850,522)
Deferred tax liability	156,866,994	130,971,824
Net deferred tax (asset)/liability	(467,332,859)	(343,878,698)

Recognition of deferred tax asset of LKR 624,199,853.00 (2017 – LKR 474,850,522.00) is based on the Management's profit forecasts (which are based on available evidence including historical levels of profitability), which indicates that it is probable that the Bank will have future taxable profits against which these assets can be used.

26.1 Amounts recognised in the income statement

	2018 LKR	2017 LKR
Recognised in profit or loss	(37,148,264)	(60,068,839)
Recognised in other comprehensive income	(31,121,936)	(66,160,248)

26.2 Movement in deferred tax balances

Bank	Net balance as at 1 January 2018 LKR	Recognised in profit or loss LKR	Recognised in OCI LKR	Net balance as at 31 December 2018 LKR	Deferred tax asset LKR	Deferred tax liability LKR
Property, plant and equipment	130,971,824	25,895,170	–	156,866,994	–	156,866,994
Provision for loan losses-impact on adoption of SLFRS 9*	(55,183,960)	(29,477,068)	–	(84,661,028)	(84,661,028)	–
Employee benefits	(474,850,522)	(33,566,367)	(31,121,936)	(539,538,825)	(539,538,825)	–
	(399,062,658)	(37,148,264)	(31,121,936)	(467,332,859)	(624,199,853)	156,866,994

**The impact on adopting SLFRS 9 on Provision for loan losses has been adjusted to the opening retained earnings, therefore the resulting change in the balance is not reflected in the current year profit or loss.*

Bank	Net balance as at 1 January 2017 LKR	Recognised in profit or loss LKR	Recognised in OCI LKR	Net balance as at 31 December 2017 LKR	Deferred Tax asset LKR	Deferred tax liability LKR
Property, plant and equipment	140,443,236	(9,471,412)	–	130,971,824	–	130,971,824
Employee benefits	(358,092,847)	(50,597,427)	(66,160,248)	(474,850,522)	(474,850,522)	–
	(217,649,611)	(60,068,839)	(66,160,248)	(343,878,698)	(474,850,522)	130,971,824

27. Other assets

As at 31 December	2018 LKR	2017 LKR
Cost		
Financial assets		
Receivables	1,337,510,154	1,139,239,311
Deposits and advances	32,845,888	15,760,103
Sundry debtors	27,271,799	38,049,633
Others	50,545,261	45,689,712
	1,448,173,102	1,238,738,759
Non-financial assets		
Prepayment	90,529,937	90,120,539
Others	1,039,037,024	934,421,811
Tax receivables	3,084,424	3,084,424
	1,132,651,385	1,027,626,774
Total	2,580,824,487	2,266,365,532

28. Due to banks

As at 31 December	2018 LKR	2017 LKR
Borrowings	67,463,088	165,040,596
Leasing (Note 28.1)	96,000	2,842,626
Refinance	11,030,775,734	10,561,428,912
Total	11,098,334,822	10,729,312,134

28.1 Maturity of the leasing

As at 31 December	2018 LKR	2017 LKR
Not later than 1 year	96,000	2,894,307
Later than 1 year and not later than 5 years	–	–
Later than 5 years	–	–
	96,000	2,894,307
Less – Interest in suspense	–	(51,681)
Total	96,000	2,842,626

29 Due to other customers

As at 31 December	2018 LKR	2017 LKR.
At amortised cost	141,559,973,557	139,827,364,797
Total	141,559,973,557	139,827,364,797

29.1 Analysis

As at 31 December	2018 LKR	2017 LKR
By product		
Savings deposits	28,485,537,261	28,050,272,766
Long term savings	23,034,273,135	20,937,708,039
Fixed deposits	90,040,163,162	90,839,383,993
Total	141,559,973,557	139,827,364,797
By currency		
Sri Lankan rupees	141,559,973,557	139,827,364,797
Total	141,559,973,557	139,827,364,797

30. Debt issued and other borrowed funds

As at 31 December	2018 LKR	2017 LKR.
Redeemable debentures (Note 30.1)	4,707,852,534	4,707,852,534
Total	4,707,852,534	4,707,852,534

30.1 Redeemable debentures

As at 31 December	2018 LKR	2017 LKR.
Opening balance as at 1 January	4,707,852,534	2,708,377,456
Debenture issued	–	2,000,000,000
Interest payable	535,784,685	459,638,795
Interest paid	(535,784,685)	(460,163,717)
Closing balance as at 31 December	4,707,852,534	4,707,852,534

Details of debenture issued

				Amortised cost	
	Note	No. of debentures	Face value LKR	2018 LKR	2017 LKR
Debentures issued in 2015	30.1.1	25,000,000	2,500,000,000	2,707,852,534	2,707,852,534
Debentures issued in 2017	30.1.2	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000
Total debentures issued by the Bank			4,500,000,000	4,707,852,534	4,707,852,534

30.1.1 Debenture issued in 2015

Unsecured subordinated redeemable 5-year debentures of LKR 100.00 each issued in 2015. The debentures are quoted in the Colombo Stock Exchange.

Type	No. of debentures	Face value (LKR)	Amortised cost 2018 (LKR)	Amortised cost 2017 (LKR)	Allotment date	Maturity date	Rate of the interest
A	21,288,500	2,128,850,000	**2,320,446,500**	2,320,446,500	30 January 2015	30 January 2020	Fixed – 9.00% per annum payable annually
B	3,610,200	361,020,000	**377,053,640**	377,053,640	30 January 2015	30 January 2020	Fixed – 8.81% per annum payable biannually
C	101,300	10,130,000	**10,352,394**	10,352,394	30 January 2015	30 January 2020	Fixed – 8.71% per annum payable quarterly
	25,000,000	2,500,000,000	**2,707,852,534**	2,707,852,534			

30.1.2 Debenture issued in 2017

Unsecured subordinated redeemable 5-year debentures of LKR 100.00 each issued in 2017. The debentures are quoted in the Colombo Stock Exchange.

Type	No. of debentures	Face value (LKR)	Amortised cost 2018 (LKR)	Amortised cost 2017 (LKR)	Allotment date	Maturity date	Rate of the interest
A	3,000,000	300,000,000	**300,000,000**	300,000,000	31 March 2017	31 March 2022	Fixed – 16.00% per annum payable annually
B	17,000,000	1,700,000,000	**1,700,000,000**	1,700,000,000	31 March 2017	31 March 2022	Fixed – 15.5% per annum payable biannually
	20,000,000	2,000,000,000	**2,000,000,000**	2,000,000,000			

31. Current tax liabilities

As at 31 December	2018 LKR	2017 LKR
Balance as at 1 January	**365,502,454**	295,870,977
Current tax based on profit for the year (Note 14)	**1,072,147,126**	978,574,649
Over provision in respect of previous years (Note 14)	**(5,503,331)**	(11,709,571)
Payment of tax	**(958,313,173)**	(897,233,601)
Total	**473,833,076**	365,502,454

32. Other liabilities

As at 31 December	2018 LKR	2017 LKR
Financial liabilities		
Sundry creditors	129,239,225	167,509,776
Other payables	1,585,380,091	1,630,373,968
Inter bank transaction in transit	60,604	838,179
	1,714,679,920	1,798,721,924
Non-financial liabilities		
Other payables	743,890,842	521,804,392
Impairment provision for expected credit losses – Credit related commitment and contingencies	1,715,667	n/a
	745,606,509	521,804,392
Total	2,460,286,430	2,320,526,315

33. Retirement benefit obligation

As at 31 December	2018 LKR	2017 LKR
Retirement benefit obligation (Note 33.1)	1,926,924,377	1,695,894,720
	1,926,924,377	1,695,894,720

33.1 Net asset /(liability) recognised in the statement of financial position

As at 31 December	2018 LKR	2017 LKR
Opening balance as at 1 January	1,695,894,720	1,278,903,024
Provision made during the year (Note 33.2)	265,384,959	227,861,027
Payable for resigned employees	(19,832,817)	–
Net actuarial (gain)/loss on obligation (Note 33.3)	111,149,773	236,286,599
	2,052,596,635	1,743,050,650
Benefits paid by the Bank	(125,672,259)	(47,155,929)
	1,926,924,376	1,695,894,720

33.2 Amount recognised in income statement

As at 31 December	2018 LKR	2017 LKR
Current service cost	178,400,760	80,787,179
Interest cost	86,984,199	147,073,848
Total amount recognised in the income statement	265,384,959	227,861,027

33.3 Amount recognised in statement of other comprehensive income

As at 31 December	2018 LKR	2017 LKR
Net actuarial (gain)/loss on obligation	111,149,773	236,286,599
Total amount recognised in other comprehensive income	111,149,773	236,286,599

33.4 An actuarial valuation of the gratuity fund was carried out as at 31 December 2018 by Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method", recommended by Sri Lanka Accounting Standard – LKAS 19 "Employee Benefits".

Actuarial assumptions	2018	2017
Discount rate as at 31 December	11.50%	10.30%
Future salary increment rate	8% (Every three years with the next increment due on 1 January 2021)	8% (Every three years with the next increment due on 1 January 2018)
Mortality	A1967/70 mortality table	A1967/70 mortality table
Retirement age	60 Years	57 Years

Expected average future working life of the active participants is 15 years (14 years 2017).

33.5 Sensitivity of assumptions used in the actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on to total comprehensive income and employment benefit obligation for the year.

		2018		2017	
Increase/ (decrease) in discount rate	Increase/ (decrease) in salary increment rate	Sensitivity effect on income statement increase (reduction) in results for the year LKR	Present value of defined benefit obligation increase (decrease) in the liability LKR	Sensitivity effect on income statement increase (reduction) in results for the year LKR	Present value of defined benefit obligation increase/ (decrease) in the liability LKR
1%	–	127,505,630	(127,505,630)	91,608,580	(91,608,580)
(1%)	–	(144,428,389)	144,428,389	(103,547,903)	103,547,903
–	1%	(156,697,174)	156,697,174	(112,448,206)	112,448,206
–	(1%)	140,131,523	(140,131,523)	101,046,505	(101,046,505)

34. Stated capital

As at 31 December	2018 LKR	2017 LKR
Ordinary shares		
Opening balance as at 1 January (137,093,693 ordinary shares)	3,870,936,931	1,370,936,931
Issue of shares*	4,176,292,999	2,500,000,000
Closing balance as at 31 December	8,047,229,930	3,870,936,931

On 31 December 2018 the Bank acquired 100% equity stake with controlling interest in Lankaputhra Development Bank by way of an issuance of the Bank's shares for the value of LKR 4,176,293,000.00. Number of shares issued were 158,013,356.

35. Statutory reserve fund

As at 31 December	2018 LKR	2017 LKR
Opening balance as at 1 January	663,652,150	599,455,675
Transfer during the period	53,679,318	64,196,475
Closing balance as at 31 December	717,331,468	663,652,150

36. Retained earnings

As at 31 December	2018 LKR	2017 LKR
Opening balance as at 1 January	1,716,908,747	988,284,444
Profit for the year	1,073,586,361	1,283,929,506
Other comprehensive Income	(80,027,837)	(170,126,351)
Transfers to other reserves	(322,075,908)	(385,178,851)
Impact of adopting SLFRS 9 (Note 4)	(72,485,552)	–
Closing balance as at 31 December	2,315,905,812	1,716,908,747

37. Other reserves

(a) Bank – Current year (2018)

	Opening balance as at 1 January LKR	Movement/ Transfers LKR	Closing balance as at 31 December LKR
General reserve	2,843,208,353	214,717,272	3,057,925,624
Special reserve fund	518,042,478	53,679,318	571,721,796
Total	3,361,250,831	268,396,590	3,629,647,420

(b) Bank – Previous year (2017)

	Opening balance as at 1 January LKR	Movement/ Transfers LKR	Closing balance as at 31 December LKR
General reserve	2,586,422,452	256,785,901	2,843,208,353
Special reserve fund	453,846,003	64,196,475	518,042,478
Total	3,040,268,455	320,982,376	3,361,250,831

The general reserve is the result of the Bank transferring a certain amount of profit from retained earnings accounts to general reserve account. The purpose of setting up the general reserve is to meet potential future unknown liabilities.

38. Contingent liabilities and commitments

In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities, and to manage its own exposure to risk. These financial instruments generate interest or fees and carry elements of credit risk in excess of those amounts recognised as assets and liabilities in the statement of financial position. However no material losses are anticipated as a result of these transactions.

These contingencies and commitments are quantifies below:

As at 31 December	2018 LKR	2017 LKR
Guarantees and performance bonds	130,591,381	133,565,207
Other contingent items	83,883,453	272,995,965
Less: Impairment for expected credit losses – Guarantees	(1,715,667)	n/a
Total	212,759,167	406,561,172

38.1 Analysis of investment in fixed deposits based on exposure to credit risk

As at 31 December 2018	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR
Guarantees and performance bonds	–	130,591,381	130,591,381
Impairment for expected credit losses (Note 38.1.1)	–	(1,715,667)	(1,715,667)
	–	128,875,714	128,875,714

38.1.1 Impairment for expected credit losses – Investment in fixed deposits

As at 31 December	2018 LKR
Balance as at 1 January	1,228,713
Net charge for the year	486,954
Amounts written off during the year	–
Other adjustments including exchange rate differences	–
	1,715,667

38.2 Litigation against the Bank

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for adverse effects which the claims may have on its financial standing. At the year end, the Bank had several legal claims.

(1) Court of Appeal – Colombo – CA (Writ) 84/2014

This case has been filed by Ms D G L Jayanthi an employee of the Bank requesting to issue a Writ of Certiorari quashing the disciplinary letter given to her including sanctions to stop two salary increments and promotions for five years. By the petition she has argued the validity of the Disciplinary Code of the Bank. The case will be mentioned to file written submissions on 25 March 2019. We are of the opinion that the Court will consider the validity of the disciplinary order and provide its judgement.

(2) Court of Appeal – Colombo – CA(Writ) 343/2014

This case has been filed by an employee of the Bank, Ms H M N M Herath against the disciplinary letter given to her requesting for a Writ of Certiorari and by the petition she argued the validity of the Bank's Disciplinary Code. The judgement will be delivered on 28 March 2019. We are of the opinion that the judgement will be in our favour.

(3) Court of Appeal – Colombo – CA(Writ) 191/2014

This case has been filed by Mr M K Francis an employee of the Bank whose services were terminated for the illegal investments he had done in Vanik Incorporation and the Labour Tribunal Matara had given its order to reinstate him. He was reinstated in Grade 3-I and he claims that the Bank should reinstate him in the Grade of Chief Manager. He has requested to issue a Writ of Mandamus. The case is fixed for argument on 17 May 2019.

(4) Court of Appeal – Colombo – CA(Writ) 366/2014

This case has been filed by an employee of the Bank Mr P Wagachchi requesting to issue a Writ of Certiorari to quash the decision of his interdiction order. He was interdicted due to the financial misconducts done at the Tissamaharama Branch. The Court has issued an interim injunction from taking any further steps in the domestic inquiry against him. The case is fixed for written submissions on 25 March 2019. We are of the opinion that if the judgement of CA(Writ) 343/2014 matter will be in our favour, that will be a precedent for this matter as well.

(5) Supreme Court – SC/HC/CALA/114

This case is an appeal case which the Bank has appealed against the decision of the High Court of Civil Appeal North Central Province regarding a recovery of a loan which was granted to buy a tractor. The case was filed under the Debt Recovery (Special Provisions) Act No. 2 of 1990 in the Distrct Court of Polonnaruwa and the judgement was in favour of the Plaintiff. The Bank appealed against the District Court judgement and the High Court of Civil Appeal's judgement. The matter is fixed for arguments on 10 June 2019. We are of the opinion that the decision will not be in our favour due to the weaknesses in our documents.

(6) Supreme Court – SC/Appeal/179/16

This is a leave to appeal case against the judgement given in favour of Mr S Dammika whose land has been mortgaged to the Bank as a guarantee for the loan taken by Mr A Pemadasa by Tangalle High Court of Civil Appeal. When the mortgagor defaulted in payments the Bank auctioned the land in terms of the Recovery of Loans by Banks (Special Provisions) Act No. 04 of 1990 and Mr H Ariyadasa purchased the land. The High Court of Civil Appeal held that a land owned by a third party cannot be auctioned. Mr H Ariyadasa appealed against the said order. If the Court will take the view that a land belong to a third party cannot be auctioned, Mr Ariyadasa will ask for compensation from the Bank.

(7) Supreme Court – SC/CALA/Appeal 168(2016)

Ms K G P M Nirmalatha who was an employee of the Rajarata Sanwardana Bank filed a case in Anuradhapura District Court under the number 21814/M for the loss of her employment privileges when she was serving in the said Bank. The Bank had made an objection to substitute Pradeshiya Sanwardana Bank instead of Rajarata Development Bank. However that objection was not accepted by the DC as well as the Civil Appellate High Court. Being agrived by that decision the Bank has appealed to the Supreme Court and the matter is now fixed for arguments on 23 September 2019. We are of the opinion that Supreme Court decision will not be in our favour.

(8) Supreme Court – SC Appeal 39/2016

An application to Badulla Labour Tribunal was filed by the Ceylon Bank Employees Union on behalf of Mr Visidagama against the termination of his services and has requested for reinstatement. The LT had given its judgement in favour of Mr Visidagama and the Bank had appealed to High Court of Badulla and then to the Supreme Court. The arguments are fixed for 2 July 2019. We are of the opinion that the decision will not be in our favour.

(9) Labour Tribunal Colombo – Case No. LT 01/57/2011

This LT application was filed by Ceylon Bank's Employees Union (CBU) on behalf of Mr U B Ranjith against the termination of his services and requesting reinstatement or compensation. His services were terminated for the financial misconducts done in Palakuda Branch. In this matter the LT has given its judgement in favour of the Bank and the CBU had appealed to the High Court of Colombo and that appeal matter has not been started yet. We are in the opinion that the appeal will also be in the favour of Bank.

(10) Labour Tribunal – Kuliyapitiya – 46/Kuli/03/2016

This is an application to the Labour Tribunal Kuliyapitiya by Mr D M P Rukmal Dasanayaka against the termination of his services and requesting for reinstatement and back wages. The next date of the is matter is 12 March 2019. If the Bank will not be in a position to prove his misconducts.
We are of the opinion that the Court will order a reinstatement

(11) Labour Tribunal – Negombo – 21/386/2016

This case has been filed by Mr J S Pathirana against the termination of his services and requesting for reinstatement. The case is fixed for inquiry on 2 April 2019. We are of the opinion that the Bank will be able to prove the misconducts done by the applicant.

(12) Labour Tribunal – Kandy – 03/248/08

This application has been filed by Mr K B M Kapla Pradeepta against the termination of his services and he has requested for reinstatement and back wages. The case is fixed for inquiry on 5 February 2019.

(13) Labour Tribunal – Kalutara – 18/KT/351

This application to the Labour Tribunal Kaluthara had done by Mr H A R Silva whose services were terminated due to the financial misconducts done by him in Beruwala Branch. He has requested for reinstatement and back wages. Meanwhile the Criminal Investigation Department had filed a case in Magistrate Court Kaluthara for the fraud done by him. The Labour Tribunal matter is laid by until the Magistrate Court matter is over. We are of the opinion that the decision will be in our favour.

(14) Labour Tribunal – Ratnapura – 6R/7569/17

This application has been filed by Ms M Wickramasooriya an employee of the Bank against the termination of her services requesting for reinstatement. She was interdicted for the financial misconducts done by her. The case is fixed for inquiry on 26 April 2019. We are of the opinion that the Bank will be able to prove the misconducts. The Criminal Investigation Department had filed a case against her in Magistrate Court Pelmadulla.

(15) Labour Tribunal – Kaluthara – 18/KT/734

This case has been filed by Mr Aruna Shantha an employee of the Bank for reinstatement of service. He has not reported for work from year 2013. As per his application this is due to his medical conditions. The case is fixed for inquiry on 4 April 2019. We are of the opinion that the decision will be in our favour.

(16) Labour Tribunal – Negombo – 21/475/2017

This case has been filed by Mr L A S Gunarathna against termination of his services and requesting for reinstatement. The case is fixed for inquiry on 1 April 2019. We are of the opinion that the Bank will be able to defend the case.

(17) Labour Tribunal – Kaluthara – 18/KT/748/18

This case has been filed by Ms H D Malani who had come to the Baduraliya Branch to assist in preparing tea and for cleaning the building. The case is fixed for inquiry on 4 April 2019. We are of the opinion that the decision will be in our favour.

(18) Labour Tribunal – Badulla – 05/20573/2018

This case has been filed by Mr Somarathna against termination of his service and has requested for reinstatement. The case is fixed for inquiry on 24 April 2018. We are of the opinion that the decision will be in our favour.

(19) Labour Tribunal – Kandy – 03/20/2018

This case has been filed by CBEU on behalf of Mr V G N R Ranasinghe against the termination of his service and requested for reinstatement. The case is fixed for inquiry on 14 March 2019. If the Bank will be able to prove the financial misconducts done by the applicant, the decision will be in our favour.

(20) Labour Tribunal – Palapathwala –39/07/2015

This case has been filed by Ms W M G P Weerakoon against termination of her services and requesting for reinstatement. The case is fixed for inquiry on 19 March 2019. If the Bank will be able to prove the financial misconducts done by the applicant, the decision will be in our favour.

(21) District Court Colombo Case No. DMR 2230/2011

This case has been filed by a customer of Imaduwa Branch named Ms K K G D R S Wijethilaka claiming for damages of LKR 20,000,000.00 for the defamation caused to her by coping her National Identity Card Number for another customer's NIC number and as a consequence reporting her as a defaulted customer to the CRIB. The judgement will be delivered on 3 April 2019. We are in the opinion that the Plaintiff won't be able to establish the legal requirements of defamation and the case will be in our favour.

(22) District Court – Anuradhapura – 20324/M

The Plaintiff Mr Anura Ranasinghe has filed this matter against the Bank claiming damages for the death of Mr N G Ranasinghe, his father who had obtained a loan from the Bank to buy a tractor. He has claimed LKR 2,000,000.00 as damages. The case is fixed for trial on 11 June 2019. We are of the opinion that the Plaintiff won't be able to establish the requirements of defamation.

(23) Commercial High Court – Colombo – CHC/338/2015/MR

This case had been filed by S &H Creation (pvt) Ltd. against auctioning the mortgaged property for a loan of LKR 8,500,000.00 and the Court had issued an interim order restraining conducting the auction. The case is fixed for settlement on trial on 21 March 2019.

(24) Commercial High Court – Colombo – CHC/92/2018/MR

This case has been filed by two customers of Medirigiriya Branch for preventing the auction of the mortgaged property which they have mortgaged for a loan of LKR 5 Mn. The matter is fixed for Order on 30 April 2019. We are of the opinion that the decision will be in our favour.

39 Related party disclosures

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard – LKAS 24 – "Related party disclosures" i.e. significant investors, key management personnel (KMPs), close family members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off-balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

39.1 Parent and the ultimate controlling party

Regional Development Bank is a Government-owned Bank.

39.2 Key management personnel (KMPs) of the Bank

As per the Sri Lanka Accounting Standard – LKAS 24 – "Related party disclosures", the KMPs includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. KMPs include the members of the Board of Directors of the Bank, the Chief Executive Officer, Deputy General Managers, Senior Assistant General Managers, Regional General Managers, Compliance Officer, Chief Internal Auditor and Board Secretary.

39.2.1 Compensation to key management personnel (KMPs)

	2018 LKR	2017 LKR
Short-term employment benefits	144,706,138	109,320,058
Post-employment benefits	–	–
Total	144,706,138	109,320,058

39.2.2 Transactions, arrangements and agreements involving key management personnel (KMP) and their close family members (CFM)

	2018 LKR	2017 LKR
Items in the statement of financial position		
Assets		
Loans and receivables	29,623,384	37,298,432
Total	29,623,384	37,298,432
Liabilities		
Deposits	85,532,058	71,887,329
Total	85,532,058	71,887,329
Items in the income statement		
Interest income	2,004,840	2,622,421
Interest expenses	7,314,328	5,722,345
Total	9,319,169	8,344,766

39.2.2.1 Terms and conditions of the accommodation granted to KMPs and their CFMs

Type of the loan	Other terms and conditions	Balance as at 31 December 2018 LKR	Security details 31 December 2018	
			Type	Value LKR
Staff housing loans	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.	10,574,977	Land	58,959,538
Staff vehicle loans		8,125,751	Motor vehicle	16,993,763
Cash-backed loans		2,335,800	Fixed deposit	2,748,000
Consumptions and other loans		8,586,856		
		29,623,384		

Type of the loan	Other terms and conditions	Balance as at 31 December 2017 LKR	Security details 31 December 2017	
			Type	Value LKR
Staff housing loans	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.	10,580,905	Land	61,756,783
Staff vehicle loans		14,741,291	Motor vehicle	29,344,344
Cash-backed loans		3,523,205	Fixed deposit	4,105,000
Consumptions and other loans		8,453,030		
		37,298,432		

Total exposure to KMPs and their CFMs represents 0.3% of bank's regulatory capital

39.2.3 Goods and services purchased

During the year, goods and services purchased from the entities where KMPs have either control and/or joint control in the normal course of the business, are detailed below:

	2018 LKR	2017 LKR
Goods and services purchased	–	2,649,210
Total	–	2,649,210

39.3 Transactions with the significant investor and related entities

In accordance in paragraph 25 of Sri Lanka Accounting Standard LKAS 24 – "Related party disclosures", the Bank has exempted from the disclosure requirements under paragraph 18 on transactions with Government of Sri Lanka, significant investor and its related entities.

A number of entities in which the Government of Sri Lanka has an interest, have significant interests in the Bank.

The Bank has disclosed individually significant transactions and other transactions collectively, but not individually with significant investor and related entities under LKAS 24. The Bank has entered into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the statement of financial position are as follows:

	2018 LKR	2017 LKR
Levy paid to General Treasury	–	(125,000,000)
Total	–	(125,000,000)

	Outstanding balance	
	2018 LKR	2017 LKR
Items in the statement of financial position		
Assets		
Loans and receivables	278,035,660	320,379,150
Total	278,035,660	320,379,150
Liabilities		
Deposits	26,084,007,658	20,072,193,145
Total	26,084,007,658	20,072,193,145
Items in the income statement		
Interest income	16,426,398	47,231,606
Interest expenses	3,023,168,595	1,741,012,384
Total	3,039,594,994	1,788,243,990

39.3.1 Further transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

Investment in Treasury Bills and money market placements

Payment of statutory rates and taxes

Payment for utilities mainly comprising telephone, electricity and water

Payment for employment retirement benefits – (EPF, ETF)

39.4 Pricing policy with related parties

The Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to key management personnel under approved schemes uniformly applicable to all or specific categories of employees.

40. Assets pledged as security

The total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2018 and 2017 is shown in the preceding tables:

2018

	Type of facility	Amount of facility LKR Mn.	Nature of security	Value of security LKR Mn.	Balance as at 31 December 2018 LKR Mn.
1	Over draft – BOC	1,326	FD 80912939	510.129	–
			FD 74353124	206.807	
			FD 82300125	242.000	
			FD 74817306	253.330	
			FD 74588793	236.170	
			FD 74619066	236.184	
2	Over draft – PB	200	FD – 14-6001-000131896	327.446	–

2017

	Type of facility	Amount of facility LKR Mn.	Nature of security	Value of security LKR Mn.	Balance as at 31 December 2017 LKR Mn.
1	Over draft – BOC	1,912	FD – 74353124	184.402	–
			FD – 81290454	242.000	
			FD – 74817306	225.483	
			FD – 74588793	208.884	
			FD – 74619066	208.897	
			FD – 80912939	510.129	
			FD – 79767742	650.000	
2	Over draft – PB	200	FD – 14-6001-000131896	327.446	–

41. Non-Cash items included in profit before tax

For the year ended 31 December	Note	2018 LKR	2017 LKR
Depreciation of property, plant and equipment	24	291,335,272	285,315,658
Amortisation of intangible assets	25	27,685,466	40,785,417
EIR adjustment		126,180,269	(607,989)
Impairment chargers	10	1,409,784,095	443,866,831
Capital loss on pawning advance	12	–	30,828
Liya isuru fair value adjustment		(97,919,405)	(53,347,726)
Levy paid to general treasury		–	125,000,000
Changes in equity instruments at fair value through profit or loss	8	30,900	7,700
Charge for retirement benefit obligation	11	265,384,959	227,861,027
Movements of other funds		(424,266)	9,282,836
(Profit)/Loss on sale of fixed assets	9	(11,206,047)	(860,208)
Recoveries of NPL loans		(1,733,639)	
Total		2,009,117,605	1,077,334,374

42. Change in operating assets

For the year ended 31 December	2018 LKR	2017 LKR
Net change in loans and receivables from other customers	**(7,444,837,849)**	(22,245,731,384)
Change in other assets	**(314,458,955)**	(200,331,421)
Net change in financial investments at amortised cost-debt and other instruments	**0**	(2,512,555,629)
Total	**(7,759,296,804)**	(24,958,618,434)

43. Change in operating liabilities

For the year ended 31 December	2018 LKR	2017 LKR
Net change in due to banks	**466,600,195**	832,999,585
Net change in due to other customers	**1,729,003,711**	32,796,251,932
Net change in other liabilities	**139,760,114**	913,375,655
Total	**2,335,364,021**	34,542,627,172

44. Fair value of financial instruments

44.1 Fair value hierarchy

Level 1 – Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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: quoted market prices in active markets for similar instruments;quoted prices for identical or similar instruments.

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 valuation.

44.2 Financial instruments measured at fair value

The following table shows an analysis of financial instruments recorded at fair value at the reporting date by level of the fair value hierarchy: into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

As at 31 December	2018			
	Level 1 LKR	Level 2 LKR	**Level 3 LKR**	Total LKR
Equity Instruments at fair value through profit or loss	115,600	–	**–**	115,600
Financial assets – fair value through other comprehensive income	–	–	**4,176,342,999**	4,176,342,999
	115,600	–	**4,176,342,999**	4,176,458,599

As at 31 December	2017			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial assets held for trading	146,500	–	–	146,500
Financial assets available for sale			50,000	50,000
	146,500	–	50,000	196,500

Financial assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably.

44.3 Financial instruments not measured at fair value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

		2018		2017	
	Fair value hierarchy	Carrying amount LKR	Fair value LKR	Carrying amount LKR	Fair value LKR
Financial assets					
Cash and cash equivalent	Level 2	689,184,136	689,184,136	572,294,808	572,294,808
Placements with banks	Level 2	6,496,628,053	6,496,628,053	6,682,475,675	6,682,475,675
Financial investments at amortised cost – Debt and other instruments	Level 2	27,757,513,965	27,757,513,965	28,130,079,911	28,130,079,911
Financial investments – Held to maturity	Level 2	n/a	n/a	2,512,362,500	2,512,362,500
Loans and receivables from other customers – Without impairment					
Pawning	Level 2	11,454,807,949	11,454,807,949	10,260,859,056	10,260,859,056
Staff loans	Level 2	3,478,770,159	3,478,770,159	3,506,188,568	3,506,188,568
Short term	Level 2	9,181,224,723	9,181,224,723	7,891,927,873	7,891,927,873
Long term	Level 2	113,654,880,532	113,654,880,532	108,665,870,018	108,665,870,018
Other assets	Level 2	1,448,173,102	1,448,173,102	1,238,738,759	1,238,738,759
		174,161,182,619	174,161,182,619	169,460,797,167	169,460,797,167
Financial liabilities					
Due to banks	Level 2	11,098,334,822	11,098,334,822	10,729,312,134	10,729,312,134
Due to other customers	Level 2	141,559,973,557	141,559,973,557	139,827,364,797	139,827,364,797
Debt issued and other borrowed funds	Level 2	4,707,852,534	4,707,852,534	4,707,852,534	4,707,852,534
Other liabilities	Level 2	1,714,679,920	1,714,679,920	1,798,721,924	1,798,721,924
		159,080,840,833	159,080,840,833	157,063,251,389	157,063,251,389

44.3.1 Basis of measurement for the fair value of financial assets and liabilities not carried at fair value

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Loans and receivables to customers

More than 56% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year. Therefore fair value of loans and advances to customers approximates to their carrying value as at the reporting date.

Due to customers

More than 69% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

45. Current vs non-current analysis

2018

As at 31 December	Within 12 months LKR	After 12 months LKR	Total LKR
Assets			
Cash and cash equivalent	689,184,136	–	689,184,136
Placements with banks	6,496,628,053	–	6,496,628,053
Equity instruments at fair value through profit or loss	115,600	–	115,600
Financial assets at amortised cost – Loans and receivables from other customers	53,728,408,245	79,704,395,759	133,432,804,004
Financial assets at amortised cost – Debt and other instruments	24,728,225,353	3,029,288,612	27,757,513,965
Equity instruments at fair value through other comprehensive income	4,176,292,999	50,000	4,176,342,999
Property and equipment	–	1,275,785,603	1,275,785,603
Intangible assets	–	60,787,720	60,787,720
Deferred tax assets	467,332,859	–	467,332,859
Other assets	1,467,422,023	1,113,402,464	2,580,824,487
Total assets	91,753,609,268	85,183,710,159	176,937,319,427
Liabilities			
Due to banks	2,834,899,559	8,263,435,262	11,098,334,822
Due to other customers	95,579,855,991	45,980,117,566	141,559,973,557
Debt issued and other borrowed funds	–	4,707,852,534	4,707,852,534
Current tax liabilities	473,833,076	–	473,833,076
Other liabilities	1,805,846,878	654,439,552	2,460,286,430
Retirement benefit obligation	158,021,671	1,768,902,705	1,926,924,376
Total liabilities	100,852,457,176	61,374,747,619	162,227,204,795
Maturity gap	(9,098,847,908)	23,808,962,540	14,710,114,631
Cumulative gap	(9,098,847,908)	14,710,114,631	–

2017

As at 31 December	Within 12 months LKR	After 12 months LKR	Total LKR
Assets			
Cash and cash equivalent	572,294,808	–	572,294,808
Placements with banks	6,682,475,675	–	6,682,475,675
Financial assets held for trading	–	146,500	146,500
Loans and receivables from other customers	46,319,034,702	81,189,777,692	127,508,812,394
Financial investments at amortised cost – Debt and other instruments	27,613,144,980	516,934,932	28,130,079,912
Financial assets available for sale		50,000	50,000
Financial assets held to maturity	–	2,512,362,500	2,512,362,500
Property and equipment	–	1,204,892,835	1,204,892,835
Intangible assets	–	37,842,762	37,842,762
Deferred tax assets	343,878,698		343,878,698
Other assets	2,266,365,532	–	2,266,365,532
Total assets	83,797,194,395	85,462,007,220	169,259,201,616
Liabilities			
Due to banks	2,682,328,034	8,046,984,101	10,729,312,134
Due to other customers	96,528,410,196	43,298,954,601	139,827,364,797
Debt issued and other borrowed funds	–	4,707,852,534	4,707,852,534
Current tax liabilities	365,502,454	–	365,502,454
Other liabilities	2,320,526,316	–	2,320,526,316
Retirement benefit obligation	–	1,695,894,720	1,695,894,720
Total liabilities	101,896,766,999	57,749,685,956	159,646,452,955
Maturity gap	(18,099,572,604)	27,712,321,264	9,612,748,661
Cumulative gap	(18,099,572,604)	9,612,748,661	–

46. Risk management

46.1 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 responsibilities. The Bank is mainly exposed to –

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

46.1.1 Risk management framework

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Bank's risk management policies. The Committee comprises Non-Executive Directors and members of the Senior Management of the Bank. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

46.1.2 Asset and Liability Committee (ALCO)

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Departments, and the Bank Chief Risk Officer. The Committee meets regularly to monitor and manage the assets and liabilities of the Bank and also overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

46.1.3 Risk measurement and reporting

The Bank's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits and thresholds 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 (Risk Appetite).

46.1.4 Risk mitigation

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc. are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

46.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the credit risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as guarantees etc., which would carry credit risk. The Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent credit risk management.

46.2.1 Impairment assessment (policy applicable from 1 January 2018)

46.2.1.1 The Bank's internal rating process

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, primary-dealers, exchanges and clearing-houses. For these relationships, the Bank's Treasury Unit analyses publicly available information such as financial information.

Sector classification of loans

The loan classification of the Bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka. Of the total sector classification, this report categorised them in top major sectors, in accordance to the size of the portfolios.

The highest sector under this classification as per the banks closing books, 2018 is the Housing loan followed by Refinance/Interest subsidy loans, Commercial, Agriculture, Industrial, Pawning and others (Consumption, etc).

Sector wise portfolios

(1) Housing loan: Housing loan carries the highest sectorial loan concentration with 27.45% as of 31 December 2018. Housing loan consists of Term Loan – Housing and RDB *Thilina* loans.

(2) Refinance/Interest subsidy: Refinance and interest subsidy loans has 2nd highest credit concentration. These loan schemes are operated through refinance and interest subsidy facilities provided by Government institutions.

(3) Term loan commercial: Loans provided for business purposes; retail, wholesale and others.

(4) Term loan agriculture: Agriculture, agro equipments, cultivation, fisheries, livestock and pledge loans falls under this category.

(5) Term loan – Industrial: Loans against transport, tourism, and loans to service sectors fall under this category.

(6) Term loan – Others: All those sectors (comprising of consumption loans, pension loans and other specialised loans schemes).

(7) *Liyaisura* – Interest free loan scheme for women entrepreneurs.

Corporate loans (services, manufacturing and industry loans)

For corporate loans, the borrowers are assessed by specialised credit employees of the Bank. The credit risk assessment is based on the behaviour of the customer and credit quality based on the past due status. Further, the Bank considers following aspects while assessing the risk of a customer:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision-making processes.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Company's performance.

Consumer lending and retail loans

Consumer lending comprises Housing Loans, Consumer loans and Personal Loan. These products along with retail mortgages and some of the less complex small business lending are rated by (Corporate and retail credit scoring models) primarily driven by days past due (Credit Information Bureau reports). Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, economic condition, changes in personal income/salary levels based on records of repayment capacity, repayment sources, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

The Bank's delinquency status

Delinquency status	Description
Stage 1	
Regular	Performing
1 – 30 days	Performing
Stage 2	
31 – 60 days	Under performing
61 – 90 days	Under performing
Stage 3	
Above 90 days	Non- performing

46.2.1.2 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the date on statement of financial position and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

46.2.1.3 Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every three months by credit managers and reviewed and approved by the Bank's Credit Head, Credit Department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

46.2.1.4 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. Bank determines significantly increase credit risk when customers exceed 30 days past due.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne.

46.2.1.5 Grouping financial assets measured on a collective basis

Asset classes where the Bank calculates ECL on an individual basis includes all customers above the individually significant threshold of LKR 2 Mn. of the total exposure.

Asset classes where the Bank calculates ECL on a collective basis include –

- Customers below the individually significant threshold of LKR 2 Mn.

The Bank groups these exposures into smaller homogeneous portfolios as described below:

- Product type
- Collateral type
- Nature of business
- Utilisation/Revolving amount
- Income/Repayment source
- Loan amount
- LTV
- LTI
- Repayment history

46.2.1.6 Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

An overview of the approach to estimating ECLs is set out in Note 3.1 Summary of significant accounting policies and in Note 3.1.1.7.1 overview of the ECL principles. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its risk department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2017 and 2018.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

Key drivers	ECL scenario	Assigned probabilities	2019	2020	2021	2022	2023	Subsequent years
GDP growth %								
	Base case	30	3.80	3.80	3.80	3.80	3.80	3.80
	Best case	30	3.92	4.03	4.15	4.27	4.32	4.32
	Worse case	40	3.62	3.58	3.54	3.50	3.40	3.40
Inflation Rates %								
	Base case	30	4.30	4.30	4.30	4.30	4.30	4.3
	Best case	30	4.09	4.04	4.00	3.95	3.83	3.83
	Worse case	40	4.44	4.57	4.71	4.84	4.90	4.90
Interest Rate %								
	Base case	30	11.94	11.94	11.94	11.94	11.94	11.94
	Best case	30	11.18	11.00	10.81	10.63	10.23	10.23
	Worse case	40	12.48	12.98	13.49	14.02	14.25	14.25
Exchange rates (USD to LKR)								
	Base case	30	194.62	207.15	220.49	234.68	249.79	250.00
	Best case	30	183.27	183.69	184.11	184.53	184.96	185.81
	Worse case	40	218.74	250.00	250.00	250.00	250.00	250.00
Unemployment rates %								
	Base case	30	4.10	4.10	4.10	4.10	4.10	4.10
	Best case	30	4.08	4.07	4.07	4.06	4.05	4.05
	Worse case	40	4.12	4.13	4.14	4.16	4.16	4.16

46.2.2 Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Carrying amount	
	2018 LKR	2017 LKR
Cash and cash equivalent	**689,184,136**	572,294,808
Placements with banks	**6,496,628,053**	6,682,475,675
Financial assets held for trading/equity instruments at fair value through profit or loss	**115,600**	146,500
Financial assets at amortised cost – Loans and receivables from other customers	**133,432,804,004**	127,508,812,394
Financial assets at amortised cost – Debt and other instruments	**27,757,513,965**	28,130,079,911
Financial assets – Fair value through other comprehensive income	**4,176,342,999**	–
Financial assets available for sale	**n/a**	50,000
Financial assets held to maturity	**n/a**	2,512,362,500
Other assets	**1,448,173,102**	1,238,738,759
	174,000,761,859	166,644,960,548

Commitments and contingencies

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

The table below shows the Bank's maximum credit risk exposure for commitments and contingencies. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

Commitments and contingent liabilities

	2018 LKR	2017 LKR
Contingent liabilities		
Bank guarantee	130,591,381	133,565,207
Bills send for collection	83,883,453	272,995,965
Less: impairment for expected credit losses – Guarantees	(1,715,667)	n/a
Total contingent liabilities and commitments	212,759,167	406,561,172

46.2.3 Assessment of expected credit losses

(a) Analysis of the total impairment for expected credit losses is as follows.

As at 31 December 2018	Note	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Placements with banks	18.1	64,879	–	–	64,879
Financial assets at amortised cost – Loans and receivables from other customers	20.4	1,016,251,838	928,793,193	1,553,072,633	3,498,117,664
Financial investments at amortised cost – Debt and other instruments					–
Debentures – Quoted	21.1.1	8,820	–	–	8,820
Investment in fixed deposits	21.2.1	1,107,316	–	–	1,107,316
Credit-related commitments and contingencies	38.1		1,715,666.80	–	1,715,667
Total impairment for expected credit losses		1,017,432,853	930,508,860	1,553,072,633	3,501,014,346

(b) Movement of the total impairment for expected credit losses during the period

	Total LKR
Balance as at 1 January 2018	2,091,945,548
Net charge to profit or loss	1,409,784,095
Write-off during the year (Note 20.2)	(860,361)
Other movements	145,063
Balance as at 31 December 2018	3,501,014,346

46.2.4 Credit quality analysis of financial assets

2018

	Neither past due nor impaired LKR	Past due but not impaired individually LKR	Individually impaired LKR	Total LKR
Cash and cash equivalent	689,184,136			689,184,136
Placements with banks	6,496,628,053			6,496,628,053
Equity instruments at fair value through profit or loss	115,600			115,600
Financial assets at amortised cost – Loans and receivables from other customers – Without impairment	104,450,400,248	32,220,395,362	1,098,887,753	137,769,683,363
Financial investments at amortised cost – Debt and other instruments	27,757,513,965			27,757,513,965
Financial assets – Fair value through other comprehensive income	4,176,342,999			4,176,342,999
Other assets	1,448,173,102			1,448,173,102
Total	145,018,358,103	32,220,395,362	1,098,887,753	178,337,641,218

2017

	Neither past due nor impaired LKR	Past due but not impaired individually LKR	Individually impaired LKR	Total LKR
Cash and cash equivalent	572,294,808	–	–	572,294,808
Placements with banks	6,682,475,675	–	–	6,682,475,675
Financial assets held for trading	146,500	–	–	146,500
Loans and receivables from other customers – Without impairment	112,538,295,114	17,062,270,748	724,279,651	130,324,845,514
Financial investments at amortised cost – Debt and other instruments	28,130,079,911	–	–	28,130,079,911
Financial assets available for sale	50,000			50,000
Financial assets held to maturity	2,512,362,500	–	–	2,512,362,500
Other assets	1,238,738,759	–	–	1,238,738,759
Total	151,674,443,268	17,062,270,748	724,279,651	169,460,993,668

Reconciliation of changes in the carrying amount of impaired loans and advances to customers are shown in Note 20.

(a) Aging analysis of past due but not impaired loans by class of financial assets

2018

	31-90 Days LKR	91-180 Days LKR	Above 180 days LKR	Total LKR
Loans and receivables from other customers	25,710,178,835	6,510,216,527	–	32,220,395,362
Total	25,710,178,835	6,510,216,527	–	32,220,395,362

2017

	31-90 Days LKR	91-180 Days LKR	Above 180 days LKR	Total LKR
Loans and receivables from other customers	13,534,979,793	614,282,886	2,913,008,069	17,062,270,748
Total	13,534,979,793	614,282,886	2,913,008,069	17,062,270,748

46.2.5 Credit exposure on sector/wise – loans and receivables to customers

	2018 LKR	2017 LKR
Agriculture	36,569,136,861	30,865,590,362
Industrial	22,639,910,870	21,349,483,378
Trade and business	22,566,041,942	20,323,499,280
Transport service	241,712,550	332,170,877
Housing	27,821,195,055	31,981,747,151
Consumption	16,810,803,896	15,273,703,174
Loans against deposit	5,347,234,829	4,712,406,159
Leasing	–	4,139,576
Staff	3,473,572,368	3,500,798,223
Interest receivable on loans and advances	2,300,074,992	1,981,307,335
Total	137,769,683,363	130,324,845,514

46.2.6 Collateral held and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties and personal guarantees

The Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Definition of past due

Banks consider that any amounts uncollected ninety one days or more beyond their contractual due date are "past due".

2018

	Maximum exposure to credit risk LKR	Collateral value LKR	Exposure net of collateral LKR
Cash and cash equivalent	689,184,136	–	689,184,136
Placements with banks	6,496,628,053	–	6,496,628,053
Equity instruments at fair value through profit or loss	115,600	–	115,600
Financial assets at amortised cost – Loans and receivables from other customers	137,769,683,363	20,370,310,002	117,399,373,361
Financial investments at amortised cost – Debt and other instruments	27,757,513,965	–	27,757,513,965
Equity instruments at fair value through profit or loss	4,176,342,999	–	4,176,342,999
Other assets	1,448,173,102	–	1,448,173,102

2017

	Maximum exposure to credit risk LKR	Collateral value LKR	Exposure net of collateral LKR
Cash and cash equivalent	572,294,808	–	572,294,808
Placements with banks	6,682,475,675	–	6,682,475,675
Financial assets held for trading	146,500	–	146,500
Loans and receivables from other customers	130,324,845,514	20,095,471,269	110,229,374,245
Financial investments at amortised cost – Debt and other instruments	28,130,079,911	–	28,130,079,911
Financial assets available for sale	50,000	–	50,000
Financial assets held to maturity	2,512,362,500	–	2,512,362,500
Other assets	1,238,738,759	–	1,238,738,759

46.2.6.1 Type of credit exposure

The table below sets out the principal types of collateral held against different types of financial assets:

	Percentage of exposure that is subject to collateral exposure		Principal type of collateral held
	2018 LKR	2017 LKR	
Loans and advances to retails customers			
Mortgage lending	20,370,310,002	20,095,471,269	Residential property
Personal loans	117,399,373,361	110,229,374,245	Personal guarantee/motor vehicle/equipment etc.
Investment debt securities			
Debenture – Commercial Bank	500,000,000	500,000,000	None
	138,269,683,363	130,824,845,514	

46.2.6.2 Loan-to-value ratio (LTV)

Residential mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes adjustment for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	2018 LKR	2017 LKR
LTV ratio		
Less than 50%	–	–
51-70%	20,370,310,002	20,095,471,269
71-90%	–	–
91-100%	–	–
More than 100%	–	–
Total	20,370,310,002	20,095,471,269

46.2.7 Concentration of credit risk

The concentration risk is monitored/managed through sector, product etc, maximum exposure to a single borrower and geographical area.

Concentrations of credit risk

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk for loans and advances, lending commitments, financial guarantees and investment securities is shown below:

		Loans and advances to customers		Investment debt securities		Lending commitments and financial guarantees	
	Note	2018 LKR	2017 LKR	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Carrying amount	20, 21, 38	137,769,683,363	130,324,845,514	27,758,630,101	28,130,079,911	214,474,834	406,561,172
Amount committed/ guaranteed							
Concentration by sector							
Corporate:							
Other						214,474,834	406,561,172
Government				2,512,362,500	2,512,362,500		
Banks				25,246,267,601	25,617,717,411		
Retail:							
Personal guarantee		116,859,128,335	109,958,376,321				
Mortgages		20,808,657,214	20,095,471,269				
Unsecured lending		101,897,814	270,997,924				
		137,769,683,363	130,324,845,514	27,758,630,101	28,130,079,911	214,474,834	406,561,172

46.3 Liquidity risk

"Liquidity risk" is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Bank sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring liquid ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Carrying out stress testing of the Bank's liquidity position.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale.

46.3.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2018. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Contractual maturities of undiscounted cash flows of financial assets and liabilities

2018

	Up to 3 months LKR	3 – 12 months LKR	1 – 3 years LKR	3 – 5 years LKR	Over 5 years LKR	Total LKR
Assets						
Cash and cash equivalent	689,184,136	–	–	–	–	689,184,136
Placements with banks	6,496,628,053		–	–	–	6,496,628,053
Equity Instruments at fair value through profit or loss	115,600					115,600
Financial assets at amortised cost – Loans and receivables from other customers	13,517,685,246	37,258,520,246	50,494,697,973	22,320,618,328	14,178,161,569	137,769,683,363
Financial assets at amortised cost – Debt and other instruments	19,171,929,841	7,359,045,560	1,196,948,630	562,500,000	3,625,000,000	31,915,424,030
Equity Instruments at fair value through other comprehensive income	4,176,292,999	–	–	–	50,000	4,176,342,999
Other assets	1,111,191,195	45,727,483	–	27,377,334	263,877,089	1,448,173,101
Total assets	45,163,027,070	44,663,293,289	51,691,646,604	51,040,575,573	18,067,088,658	210,625,631,194
Liabilities						
Due to banks	131,429,041	3,277,066,647	6,572,876,209	1,334,640,107	2,277,102,206	13,593,114,210
Due to other customers	42,128,508,143	57,262,969,473	9,283,110,278	12,560,622,907	26,062,864,119	147,298,074,919
Debt issued and other borrowed funds	220,581	535,564,104	5,423,430,575			5,959,215,260
Other liabilities	1,435,670,902	15,485,661	245,398,312	17,941,128	–	1,714,496,003
Total liabilities	43,695,828,667	61,091,085,885	21,524,815,374	13,913,204,142	28,339,966,324	168,564,900,393
Total net asset/ (liability)	1,467,198,403	(16,427,792,596)	30,166,831,229	37,127,371,431	(10,272,877,666)	42,060,730,801

2017

	Up to 3 months LKR	3 – 12 months LKR	1 – 3 years LKR	3 – 5 years LKR	Over 5 years LKR	Total LKR
Assets						
Cash and cash equivalent	572,294,808	–	–	–	–	572,294,808
Placements with banks	6,682,475,675		–	–	–	6,682,475,675
Financial assets held for trading	–	–	–	–	146,500	146,500
Loans and receivables from other customers	12,341,667,190	33,977,735,115	50,281,715,721	24,656,275,398	6,251,418,970	127,508,812,394
Financial investments at amortised cost-Debt and other instruments	22,588,795,415	5,113,724,717	–	516,934,932	–	28,219,455,064
Financial assets available for sale	–	–	–	–	50,000	50,000
"Financial Investments – Held to maturity"	–	–	–	2,512,362,500		2,512,362,500
Other assets	861,975,810	43,998,830	–	27,003,697	305,812,089	1,238,790,426
Total assets	42,565,700,105	40,887,983,194	50,281,715,721	27,685,572,830	6,251,615,470	166,734,387,368
Liabilities						
Due to banks	695,954,667	1,584,214,337	4,224,571,565	4,224,571,565	–	10,729,312,134
Due to other customers	45,170,409,112	49,779,207,578	8,964,477,372	11,840,924,425	24,072,346,311	139,827,364,797
Debt issued and other borrowed funds	–	–	2,707,852,534	2,000,000,000	–	4,707,852,534
Other liabilities	1,563,025,177	8,159,488	217,790,015	9,747,243	–	1,798,721,924
Total liabilities	47,608,056,306	51,895,922,416	15,962,054,103	18,087,027,747	24,397,497,664	157,950,558,234
Total net asset/ (liability)	(5,042,356,201)	(11,007,939,222)	34,319,661,618	9,598,545,083	(18,145,882,193)	9,722,029,086

46.3.2 Contractual maturities of commitments and contingencies

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2018

Contingent liabilities	On demand LKR	Less than 3 months LKR	3 – 12 months LKR	1 – 5 years LKR	Over 5 years LKR	Total LKR
Bank guarantee (without impairment)	28,233,000	22,499,000	79,259,381	600,000	–	130,591,381
Other contingent items-bills sent for collection	83,883,453	–	–	–	–	83,883,453
Total contingent liabilities	112,116,453	22,499,000	79,259,381	600,000	–	214,474,834

2017

Contingent liabilities	On demand LKR	Less than 3 months LKR	3 – 12 months LKR	1 – 5 years LKR	Over 5 years LKR	Total LKR
Bank guarantee (without impairment)	58,948,098	7,100,000	67,517,109	–	–	133,565,207
Other contingent items – Bills sent for collection	272,995,965	–	–	–	–	272,995,965
Total contingent liabilities	331,944,063	7,100,000	67,517,109	–	–	406,561,172

46.3.3 Statutory liquid assets ratio

For the month of December 2018	24.30%
For the month of December 2017	27.30%

46.3.4 Due to banks and due to other customers (deposits) to loans and receivables from banks and other customers (advances) ratio

The Bank is aware of the importance of due to banks and other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks and due to other customers (Deposits).

Due to banks and due to other customers to loans and receivables from banks and other customers ratio:

As at 31 December 2018	98.16%
As at 31 December 2017	93.20%

46.4 Market risk

"Market risk" is the risk that changes in marker prices – Such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimising the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

2018

As at 31 December	Carrying amount LKR	Market risk measure Trading portfolios LKR	Non-trading portfolios LKR
Assets subject to market risk			
Cash and cash equivalent	689,184,136	–	689,184,136
Placements with banks	6,496,628,053	–	6,496,628,053
Equity Instruments at fair value through profit or loss	115,600	115,600.00	
Financial investments at amortised cost – Debt and other instruments	27,757,513,965	–	27,757,513,965
Financial assets at amortised cost – Loans and receivables from other customers	133,432,804,004	–	133,432,804,004
Loans and receivables from other customers	4,176,342,999	–	4,176,342,999
Other assets	1,448,173,102	–	1,448,173,102
Liabilities subject to market risk			
Due to banks	11,098,334,822	–	11,098,334,822
Due to other customers	141,559,973,557	–	141,559,973,557
Debt issued and other borrowed funds	4,707,852,534	–	4,707,852,534
Current tax liabilities	473,833,076		473,833,076
Other liabilities	1,714,679,920	–	1,714,679,920

2017

As at 31 December	Carrying amount LKR	Market risk measure Trading portfolios LKR	Non-trading portfolios LKR
Assets subject to market risk			
Cash and cash equivalent	572,294,808	–	572,294,808
Placements with banks	6,682,475,675	–	6,682,475,675
Financial assets held for trading	146,500	146,500	–
Loans and receivables from other customers	127,508,812,394	–	127,508,812,394
Financial investments at amortised cost – Debt and other instruments	28,130,079,911	–	28,130,079,911
Financial Investments – Held to maturity	2,512,362,500	–	2,512,362,500
Financial assets available for sale	50,000	–	50,000
Other assets	1,238,738,759	–	1,238,738,759
Liabilities subject to market risk			
Due to banks	10,729,312,134	–	10,729,312,134
Due to other customers	139,827,364,797	–	139,827,364,797
Debt issued and other borrowed funds	4,707,852,534	–	4,707,852,534
Current tax liabilities	365,502,454	–	365,502,454
Other liabilities	1,798,721,924	–	1,798,721,924

46.4.1 Exposure to interest rate risk

2018

	Carrying amount LKR	Up to 3 months LKR	3 – 12 months LKR	1 – 5 years LKR	Over 5 years LKR
Cash and balances with Central Bank	689,184,136	689,184,136	–	–	–
Placements with banks	6,496,628,053	6,496,628,053	–	–	–
Equity instruments at fair value through profit or loss	115,600	115,600			
Financial assets at amortised cost – Loans and receivables from other customers	133,432,804,004	12,951,174,383	35,697,057,904	71,200,600,825	13,583,970,892
Financial investments at amortised cost – Debt and other instruments	27,757,513,965	18,964,295,863	5,763,920,670	516,934,932	2,512,362,500
Financial assets-fair value through other comprehensive income	4,176,342,999	4,176,292,999	–		50,000
Other assets	1,448,173,102	1,111,191,195	45,727,484	27,377,334	263,877,089
Total undiscounted assets	174,000,761,859	44,388,882,230	41,506,706,058	71,744,913,090	16,360,260,481
Due to banks	11,098,334,821	124,027,579	3,457,326,499	5,567,463,211	1,949,517,532
Due to other customers	141,559,973,557	41,038,856,179	53,330,224,885	21,385,976,216	25,804,916,278
Debt issued and other borrowed funds	4,707,852,534	–	–	4,707,852,534	–
Other liabilities	1,714,679,920	1,435,670,902	15,485,661	263,523,357	–
Total undiscounted liabilities	159,080,840,832	42,598,554,660	56,803,037,045	31,924,815,318	27,754,433,809
Interest rate sensitivity	14,919,921,027	1,790,327,570	(15,296,330,987)	39,820,097,772	(11,394,173,328)

2017

	Carrying amount LKR	Up to 3 months LKR	3 – 12 months LKR	1 – 5 years LKR	Over 5 years LKR
Cash and balances with Central Bank	572,294,808	572,294,808	–	–	–
Placements with banks	6,682,475,675	6,682,475,675	–	–	–
Financial assets held for trading	146,500				146,500
Loans and receivables from other customers	127,508,812,394	12,341,667,190	33,977,735,115	74,937,991,119	6,251,418,970
Financial investments at amortised cost – Debt and other instruments	28,219,455,064	22,588,795,415	5,113,724,717	516,934,932	–
Financial investments – Held to maturity	2,512,362,500	–	–	2,512,362,500	–
Financial assets available for sale	50,000				50,000
Other assets	1,238,790,426	861,975,810	43,998,830	27,003,697	305,812,089
Total undiscounted assets	166,734,387,368	42,565,700,105	40,887,983,194	74,937,991,119	6,251,418,970
Due to banks	10,729,312,134	695,954,667	1,584,214,337	8,449,143,130	–
Due to other customers	139,827,364,797	45,170,409,112	49,779,207,578	20,805,401,797	24,072,346,311
Debt issued and other borrowed funds	4,707,852,534	–	–	4,707,852,534	–
Other liabilities	1,798,721,924	1,563,025,177	8,159,488	227,537,258	–
Total undiscounted liabilities	157,950,558,234	47,608,056,306	51,895,922,416	34,049,081,849	24,397,497,664
Interest rate sensitivity	6,692,535,154	(5,042,356,201)	(11,007,939,222)	40,888,909,270	(18,146,078,693)

46.4.2 Exposure to currency risk

Bank does not have any foreign currency transactions and therefore do not expose to any foreign currency risk.

46.5 Operational risk

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is support by the development of overall Bank standards for the Management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

47. Capital management

47.1 Regulatory capital

The Bank's lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Group capital management goals are as follows;

a. Ensure regulatory minimum capital adequacy of 10% requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average capital adequacy ratio for the banking sector is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced
g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital.

47.2 Capital allocation

The Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved 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 risk 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 for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank risk and Bank credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

48. Comparative information

The Comparative information is reclassified wherever necessary to conform the current year's presentation and details are given below:

48.1 Statement of financial position

	Note	Reclassified LKR	As disclosed in 2017 LKR	Adjustment LKR
Financial assets held-for-trading/ Financial assets recognised through profit or loss-measured at fair value	48.1.1	146,500	196,500	(50,000)
Financial assets available for sale	48.1.1	50,000	–	50,000
Sri Lanka Government securities	48.1.2	–	2,512,362,500	(2,512,362,500)
Financial assets held to maturity	48.1.2	2,512,362,500	–	2,512,362,500
Other liabilities	48.1.3	2,320,526,315	2,686,028,770	(365,502,454)
Current tax liabilities	48.1.3	(365,502,454)	–	(365,502,454)
Balances with banks	48.1.4	–	27,702,520,133	(27,702,520,133)
Financial investments at amortised cost – Debt and other instruments	48.1.4	27,613,144,979		27,613,144,979
Cash and cash equivalent	48.1.4	89,375,154		89,375,154

48.1.1 Unquoted Equity Securities which were previously reported under financial assets held for trading have been reclassified under financial assets available for sale.

48.1.2 Investment in Government Treasury bills/bonds which were previously reported under Sri Lanka Government Securities have been transferred to financial assets held to maturity.

48.1.3 Current tax liabilities which were previously reported under other liabilities have been transferred to current tax liabilities.

48.1.4 Fixed deposits which were previously reported under balances with banks have been transferred to financial investments at amortised cost-debt and other instruments and other bank balances which were previously reported under balances with banks have been transferred to cash and cash equivalent.

48.2 Income statement

	Note	Reclassified LKR	As disclosed in 2017 LKR	Adjustment LKR
Other expenses	48.2.1	1,419,302,464	1,704,618,122	(285,315,658)
Amortisation of intangible assets	48.2.1	–	40,785,417	(40,785,417)
Depreciation and amortisation expenses	48.2.1	326,101,075	–	326,101,075
Interest income	48.2.2	20,908,493,021	20,909,579,906	(1,086,885)
Net trading gain/(loss)	48.2.2	1,079,185	(7,700)	1,086,885

48.2.1 Depreciation of property, plant expense which was previously reported under other expenses has been transferred to depreciation and amortisation expenses and amortisation of intangible assets which was presented as a single line item in the income statement have been presented as depreciation and amortisation expenses along with depreciation of property, plant and equipment.

48.2.2 Dividend income which was previously reported under interest income has been transferred to net trading gain/(loss).

Description	2018 LKR	2017 LKR	2016 LKR
Profit and loss			
Total income	26,070,610,605	22,016,079,277	15,744,336,598
Interest income	24,865,108,981	20,908,493,021	14,813,083,474
Interest expenses	(12,959,526,709)	(11,233,284,493)	(7,197,198,715)
Net interest income	11,905,582,272	9,675,208,528	7,615,884,759
Net other income	946,396,458	926,492,116	806,608,160
Total operating income	12,851,978,730	10,601,700,644	8,422,492,919
Impairment loss on financial assets	(1,409,784,095)	(443,866,831)	29,110,255
Net operating income	11,442,194,635	10,157,833,813	8,451,603,174
Personal expenses	(5,877,946,793)	(4,980,435,598)	(4,609,232,586)
Depreciation and amortisation expenses	(319,020,738)	(326,101,075)	(37,168,652)
Other expenses	(1,638,896,765)	(1,419,302,464)	(1,549,634,014)
Levy paid to General Treasury	–	(125,000,000)	(125,000,000)
Operating profit	3,606,330,339	3,306,994,676	2,130,567,922
NBT	(154,490,412)	(131,325,757)	(107,482,813)
VAT on financial services	(1,158,678,090)	(984,943,174)	(767,485,246)
Debt repayment levy	(190,079,946)	–	–
Profit before taxation	2,103,081,891	2,190,725,745	1,255,599,863
Tax on profit	(1,029,495,530)	(906,796,239)	(614,311,651)
Profit after taxation	1,073,586,361	1,283,929,506	641,288,212
Assets			
Cash and cash equivalent	689,184,136	572,294,808	428,697,741
Placements with banks	6,496,628,053	6,682,475,675	1,682,030,495
Equity Instruments at fair value through profit or loss	115,600	146,500	154,200
Financial assets at amortised cost – Loans and receivables from other customers	133,432,804,004	127,508,812,394	105,653,630,944
Financial investments at amortised cost – Debt and other instruments	27,757,513,965	28,130,079,911	19,496,313,837
Equity instruments at fair value through other comprehensive income	4,176,342,999	–	
Financial assets available for sale	–	50,000	50,000
Financial assets held to maturity	–	2,512,362,500	
Property, plant and equipment	1,275,785,603	1,204,892,835	1,186,397,657
Intangible assets	60,787,719	37,842,762	58,025,552
Deferred tax assets	467,332,859	343,878,698	217,649,611
Other assets	2,580,824,487	2,266,365,532	2,191,034,111
Total assets	176,937,319,425	169,259,201,615	130,913,984,148

Description	2018 LKR	2017 LKR	2016 LKR
Liabilities			
Due to banks	11,098,334,822	10,729,312,134	11,765,493,022
Due to other customers	141,559,973,557	139,827,364,797	107,031,720,855
Debt issued and other borrowed funds	4,707,852,534	4,707,852,534	2,708,377,456
Current tax liabilities	473,833,076	365,502,454	
Other liabilities	2,460,286,430	2,320,526,315	2,130,544,286
Retirement benefit obligation	1,926,924,377	1,695,894,720	1,278,903,024
Total liabilities	162,227,204,796	159,646,452,955	124,915,038,643
Equity			
Stated capital	8,047,229,930	3,870,936,931	1,370,936,931
Statutory reserve fund	717,331,468	663,652,150	599,455,675
Retained earnings	2,315,905,811	1,716,908,747	988,284,444
Other reserves	3,629,647,421	3,361,250,831	3,040,268,455
Total shareholders' equity	14,710,114,629	9,612,748,660	5,998,945,505
Total equity and liabilities	176,937,319,425	169,259,201,615	130,913,984,148
Statutory liquid assets ratio %	24.37	26.27	21.25
Capital adequacy ratio –			
As per BASEL II			
Tier I	N/A	N/A	6.50%
Tier II	N/A	N/A	9.27%
As per BASEL III			
Common Equity Tier I Capital Ratio %	11.58	8.73	N/A
Total Tier I Capital Ratio %	11.58	8.73	N/A
Total Capital Ratio %	13.61	12.57	N/A

Listed debenture information

Unsecured subordinate redeemable 5-years debentures of Rs.100/-

Type	Number of debentures	Face value LKR	Amortised cost 2018 LKR	Allotment date	Maturity date	Rate of the interest	Interest rate of comparable Government security %	Traded yield %	1 January 2018 – to 31 December 2018	1 January 2017 – to 31 December 2017
A	21,288,500	2,128,850,000	2,320,446,500	30 January 2015	30 January 2020	Fixed – 9.00% per annum payable annually	9.97	0	Not Traded	Not Traded
B	3,610,200	361,020,000	377,053,640	30 January 2015	30 January 2020	Fixed – 8.81% per annum payable bi annually	9.97	0	Not Traded	Not Traded
C	101,300	10,130,000	10,352,394	30 January 2015	30 January 2020	Fixed – 8.71% per annum payable quarterly	9.97	0	Not Traded	Not Traded
	25,000,000	2,500,000,000	2,707,852,534							

Instrument rating: "A-" ICRA LANKA

RDB Debenture type C

Last traded date 3 December 2015

– Highest price – LKR 90/-, Lowest price – LKR 90/-, Last transaction price – LKR 90/-.

Unlisted debenture information

Unsecured subordinated redeemable 5-year debentures of LKR.100/-.

Type	Number of debentures	Face value LKR	Amortised cost 2018 LKR	Allotment date	Maturity date	Rate of the interest
A	3,000,000	300,000,000	300,000,000	31 March 2017	31 March 2022	Fixed – 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	31 March 2017	31 March 2022	Fixed – 15.50% per annum payable bi annually
	20,000,000	2,000,000,000	2,000,000,000			

Instrument rating: "A-" ICRA LANKA

Significant ratios

	31 December 2018	31 December 2017
Net assets value per share (LKR)	26.99	24.83
Debt to equity (%)	32.00	48.98
Interest cover (Times)	4.61	4.44

Share information

Shareholders	31 December 2018 Number of ordinary shares	31 December 2018 Holding %	31 December 2017 Number of ordinary shares	31 December 2017 Holding %
General Treasury	495,758,027	90.9	337,744,671	87.3
Bank of Ceylon	16,448,448	3.0	16,448,448	4.2
People's Bank	16,448,448	3.0	16,448,448	4.2
National Savings Bank	16,452,126	3.0	16,452,126	4.3
	545,107,049		387,093,693	

Geographical distribution of branches

Provinces of Sri Lanka

1. Northern Province
2. North Western Province
3. Sabaragamuwa Province
4. Eastern Province
5. Southern Province
6. North Central Province
7. Central Province
8. Western Province
9. Uva Province

Districts of Sri Lanka

1. Jaffna District
2. Kilinochchi District
3. Mullaitivu District
4. Mannar District
5. Vavuniya District
6. Trincomalee District
7. Anuradhapura District
8. Puttalam District
9. Polonnaruwa District
10. Kurunegala District
11. Matale District
12. Kandy District
13. Kegalle District
14. Gampaha District
15. Nuwara Eliya District
16. Badulla District
17. Batticaloa District
18. Ampara District
19. Monaragala District
20. Ratnapura District
21. Colombo District
22. Kalutara District
23. Galle District
24. Matara District
25. Hambantota District

Northern Province

Admin district	Branch name
Jaffna	Chunnakam
	Jaffna
Kilinochchi	Kilinochchi
Mannar	Mannar
Vavuniya	Bogaswewa
	Kanakarayankulam
	Vavuniya

North Western Province

Admin district	Branch name
Puttalam	Anamaduwa
	Bowatta
	Chilaw
	Dummalasuriya
	Kirimatiyana
	Mahawewa
	Mampuri
	Mundel
	Nattandiya
	Nawagaththegama
	Palakuda
	Pannala
	Puttalam
	Santa Anapura
	Wennappuwa
Kurunegala	Alawwa
	Ambanpola
	Athugalpura
	Galgamuwa
	Giriulla
	Ibbagamuwa
	Kuliyapitiya
	Kurunegala
	Maho
	Mawatagama
	Melsiripura
	Narammala
	Nikaweratiya
	Panduwasnuwara
	Polpitigama
	Pothuhera
	Rideegama
	Wariyapola

Sabaragamuwa Province

Admin district	Branch name
Kegalle	Aranayake
	Bulathkohupitiya
	Dehiowita
	Deraniyagala
	Dewalegama
	Hemmathagama
	Kegalle
	Kitulgala
	Kotiyakumbura
	Mawanella
	Nelumdeniya
	Pitagaldeniya
	Rambukkana
	Ruwanwella
	Warakapola
	Yatiyantota
	Kegalle 2nd City
Ratnapura	Balangoda
	Eheliyagoda
	Embilipitiya
	Eratna
	Godakawela
	Kahawatta
	Kalawana
	Kiriella
	Kolonna
	Kuruvita
	Nivitigala
	Pelmadulla
	Potupitiya
	Pulungupitiya
	Rakwana
	Ratnapura
	Sri Palabaddala
	Weligepola

Eastern Province

Admin district	Branch name
Trincomalee	Kantale
	Mutur
	Trincomalee
	Trincomalee 2nd City
Batticaloa	Batticaloa
	Batticaloa 2nd City
	Chenkalady
	Eraur
	Kaluwanchikudy
	Kattankudy
	Kokkaddicholai
	Valaichchenai
Ampara	Akkaraipatthu
	Ampara
	Damana
	Dehiattakandiya
	Kalmunai
	Mahaoya
	Nintavur
	Potuwil
	Sammanturai
	Uhana

Southern Province

Admin district	Branch name
Galle	Ahangama
	Akmeemana
	Baddegama
	Balapitiya
	Batapola
	Elpitiya
	Galle
	Gonagalapura
	Hikkaduwa
	Imaduwa
	Kaluwella
	Karandeniya
	Karapitiya
	Neluwa
	Pitigala
	Thalgaswala
	Udugama
	Uragasmanhandiya
	Yakkalamulla
Matara	Akuressa
	Deiyandara
	Deniyaya
	Devinuwara
	Dikwella
	Gandara
	Hakmana
	Kamburugamuwa
	Kamburupitiya
	Kekanadura
	Kirinda
	Matara City
	Mawarala
	Mirissa
	Morawaka
	Pamburana
	Pitabeddara
	Thihagoda
	Urubokka
	Weligama
Hambantota	Agunakolapelessa
	Ambalantota
	Barawakumbuka
	Beliatta
	Hambantota
	Hambantota 2nd City
	Katuwana
	Lunugamvehera
	Middeniya
	Ranna
	Sooriyawewa
	Tangalle
	Thissamaharamaya
	Walasmulla
	Warapitiya
	Weeraketiya

North Central Province

Admin district	Branch name
Anuradhapura	Anuradhapura
	Galenbindunuwewa
	Galnewa
	Gonapathirawa
	Kahatagasdigiliya
	Kekirawa
	Madawachchiya
	Mihintale
	New Town – Anuradhapura
	Rambewa
	Talawa
	Tambuththegama
	Tambuththegama Town
	Tirappane
Polonnaruwa	Aralaganwila
	Bakamoona
	Galamuna
	Hingurakgoda
	Kaduruwela
	Kaduruwela New City
	Manampitiya
	Medirigiriya
	Polonnaruwa
	Pulastigama
	Sewanapitiya
	Siripura

Central Province

Admin district	Branch name
Matale	Dambulla
	Galewela
	Laggala
	Matale
	Naula
	Rattota
	Wilgamuwa
Kandy	Danture
	Daulagala
	Gampola
	Hataraliyadda
	Hedeniya
	Kandy
	Kandy 2nd City
	Katugastota
	Manikhinna
	Marassana
	Morayaya
	Nawalapitiya
	Peradeniya
	Pujapitiya
	Senkadagala
	Teldeniya
	Udawela
	Ududumbara
	Wattegama
Nuwara Eliya	Agarapatana
	Ginigathhena
	Hanguranketha
	Kotagala
	Nildandahinna
	Nuwara Eliya
	Pundaluoya
	Rikillagaskada

Western Province

Admin district	Branch name
Gampaha	Divulapitiya
	Gampaha
	Ja Ela
	Kelaniya
	Kirindiwela
	Mawaramandiya
	Minuwangoda
	Mirigama
	Miriswatte
	Negombo
	Nittambuwa
	Ragama
Colombo	Awissawella
	Homagama
	Kolonnawa
	Piliyandala
	Nugegoda
Kalutara	Agalawatta
	Baduraliya
	Beruwala
	Bulathsinhala
	Dodangoda
	Gonapola
	Horana
	Ingiriya
	Kalutara
	Matugama
	Meegahatenna
	Millaniya
	Moragahahena
	Morantuduwa
	Panadura
	Wadduwa
	Walagedara
	Warakagoda

Uva Province

Admin district	Branch name
Badulla	Badulla
	Bandarawela
	Bogahakumbura
	Diyatalawa
	Girandurukotte
	Haldummulla
	Haputale
	Kandeketiya
	Lunugala
	Mahiyanganaya
	Meegahakiwula
	Passara
	Rideemaliyadda
	Uva Maligatenna
	Uva Paranagama
	Welimada
Monaragala	Badalkumbura
	Bibile
	Buttala
	Madulla
	Medagama
	Monaragala
	Sevanagala
	Siyambalanduwa
	Thanamalvila
	Wellawaya

Notes

Notes

Registered name of the Bank

Pradeshiya Sanwardana Bank

Legal status

A licensed specialised bank established under Pradeshiya Sanwardana Bank Act No. 41 of 2008

Credit rating

"A" Negative ICRA Lanka Limited

Board of directors

Independent non-executive directors

Mr J T S P Kariyawasam – Chairman
Mr Neil De Alwis – Director
Mr K Amarasinghe – Executive Director

Non-independent non-executive directors

Mr K B Wijeyarathne – Director
Mr M J P Salgado – Director
Mr K B Rajapakse – Director
Mr A R Desapriya – Director
Mr A K Seneviratne – Director
(appointed on 21 February 2019)

General Manager/CEO – (Acting)

Mr T Kuhan

Secretary to the board of directors

Ms R M T Rajapaksha

Number of branches

273

Head office

No. 933, Kandy Road,
Wedamulla, Kelaniya
Tel: +94 11203 5454/+94 112 035 455-9
Fax: +94 11203 5467
E Mail: info@rdb.lk
Website: www.rdb.lk
Tax Payer Identification Number (TIN): 409272339
VAT Reg. No: 409272339 – 7000

Auditors

Auditor General
Auditor General's Department
No. 306/72, Polduwa Road, Battaramulla.

Provincial offices

North central provincial office

No. 65D, 4th Lane, Abaya Place,
Anuradhapura.

Uva provincial office

No. 1/315, Passara Road, Badulla.

Sabaragamuwa provincial office

No. 28B, Bandaranayake Mawatha, Ratnapura.

Southern provincial office

No. 28B, Esplanade Road, Uyanwatta, Matara.

Central provincial office

No. 16, Dharmashoka Mawatha, Kandy.

Western provincial office

No. 36, Kandy Road, Miriswatta, Mudungoda.

North western provincial office

No. 155, Negombo Road, Kurunegala.

Eastern provincial office

No. 51A, New Kalmunai Road, Kallady,
Batticaloa.

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பிரதேச அபிவிருத்தி வங்கி
RDB Regional Development Bank

Regional Development Bank
No. 933, Kandy Road,
Wedamulla, Kelaniya,
Sri Lanka

www.rdb.lk