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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

PRADESHIYA SANWARDANA BANK
AUDITED FINANCIAL STATEMENTS

31 DECEMBER 2019

මගේ අංකය / எனது இல. / My No. BAF/F/RDB/1/19/18 ඔබේ අංකය / உமது இல. / Your No. දිනය / திகதி / Date 29 May 2020

Chairman
Pradeshiya Sanwardana Bank

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Pradeshiya Sanwardana Bank for the year ended 31 December 2019 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 Sanwardana Bank ("Bank") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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.

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.

Key audit matter	**How my audit addressed the key audit matter**
Impairment allowance for loans and receivables from other customers Impairment allowance for loans and receivables from other customers was considered as a key audit matter. The materiality of the reported amounts for loans and receivables from other customers (and impairment allowance thereof), involvement of complex manual calculations, the subjectivity associated with management's impairment estimation and application of Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned basis for considering it as a Key Audit Matter. As at 31 December 2019, 68 percentage of its total assets of the Bank consisted of loans and receivables from other customers amounting to Rs.136,206 Million (Note 20), net of impairment allowance of Rs.7,667 Million. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance are disclosed in Note 3.1.1.7	To assess the reasonableness of the impairment charges, my audit procedures (among others) included the following: • I evaluated design effectiveness of controls over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of significant judgements, estimates and assumptions in relation to the impairment by the Board Audit Committee and management. • Test-checked the underlying calculations and data. • In addition to the above, following key procedures were also performed: For a sample of loans and advances 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 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, on a sample basis For loans and advances collectively assessed for impairment: - I checked the completeness and accuracy of the underlying information and calculations thereon by agreeing details to the relevant source documents, information in IT systems and re-performing the calculations. - I also considered the reasonableness of macroeconomic and other factors used by management in their

judgmental 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 notes 3.1.1.7, 14, 20 and 46.

Other information included in the Bank's 2019 Annual Report

Other information consists of the information included in the Bank's 2019 Annual Report, other than the financial statements and my auditor's report thereon. Management is responsible for the other information. The Bank's 2019 Annual Report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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 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 judgment and maintain professional skepticism 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 utilized 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

INCOME STATEMENT

Year ended 31 December 2019

	Note	2019 Rs.	2018 Rs.
Gross income	5.	27,507,821,054	26,070,610,605
Interest income		26,357,071,298	24,865,108,981
Interest expenses		(13,903,881,276)	(12,959,526,709)
Net interest income	6.	12,453,190,022	11,905,582,272
Fee and commission income		1,134,421,657	1,186,795,173
Fee and commission expenses		(278,304,299)	(259,105,166)
Net fee and commission income	7.	856,117,358	927,690,007
Net trading gain/(loss)	8.	4,757,039	1,215,762
Other operating income (net)	9.	11,571,062	17,490,689
Total operating income		13,325,635,480	12,851,978,730
Impairment charges	10	(2,408,748,853)	(1,409,784,095)
Net operating income		10,916,886,627	11,442,194,635
Less-Operating expenses			
Personnel expenses	11.	(5,931,625,972)	(5,877,946,793)
Depreciation and amortization expenses		(617,322,679)	(319,020,738)
Other expenses	12.	(1,407,680,268)	(1,638,896,765)
Levy paid to General Treasury		-	-
Operating profit before value added tax (VAT)		2,960,257,709	3,606,330,339
Taxes on Financial Services & DRL	13	(1,738,097,299)	(1,503,248,448)
Profit before tax		1,222,160,409	2,103,081,891
Tax expenses	14	(723,565,878)	(1,029,495,530)
Profit for the year		498,594,531	1,073,586,361
Earnings per share			
Earnings per share : Basic	15	0.91	2.76

Figures in brackets indicate deductions.

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 11 to 76.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	Note	2019 Rs.	2018 Rs.
Profit for the year		498,594,531	1,073,586,361
Other Comprehensive income/(expenses)			
Other Comprehensive income not to be reclassified to profit or loss			
Actuarial loss on retirement benefit obligation	33.3	(111,761,620)	(111,149,773)
Deferred tax effect on above	26.2	31,293,253	31,121,936
Total Other Comprehensive income for the year, net of taxes		(80,468,366)	(80,027,837)
Total comprehensive income for the year		418,126,165	993,558,524

Figures in brackets indicate deductions.

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 11 to 76.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 Rs.	2018 Rs.
Assets			
Cash and cash equivalent	17	2,750,187,219	689,184,136
Placements with banks	18	9,798,242,492	6,496,628,053
Equity Instruments at fair value through profit or loss	19	123,000	115,600
Financial assets at amortised cost-Loans and receivables from other customers	20	136,205,641,441	133,432,804,004
Financial investments at amortised cost-Debt & other instruments	21	45,664,745,400	27,920,326,465
Equity Instruments at fair value through other comprehensive income	22	2,289,919	4,176,342,999
Property, plant and equipment	24	1,228,419,894	1,275,785,603
Intangible assets	25	45,356,343	60,787,719
Right of use assets	25.1	855,183,154	-
Deferred tax assets	26	696,316,484	467,332,859
Other assets	27	2,732,423,840	2,418,011,987
Total assets		199,978,929,186	176,937,319,425
Liabilities			
Due to banks	28	22,050,009,005	11,098,334,822
Due to other customers	29	149,599,829,047	141,559,973,557
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Current tax liabilities	31	448,881,448	473,833,076
Other liabilities	32	5,970,920,446	2,460,286,430
Retirement benefit obligation	33	2,236,115,128	1,926,924,377
Total liabilities		185,013,607,608	162,227,204,796
Equity			
Stated capital	34	8,047,229,930	8,047,229,930
Statutory reserve fund	35	742,261,195	717,331,468
Retained earnings	36	2,421,534,400	2,315,905,812
Other reserves	37	3,754,296,053	3,629,647,420
Total shareholders' equity		14,965,321,578	14,710,114,630
Total equity and liabilities		199,978,929,186	176,937,319,425
Contingent liabilities and commitments	38	230,705,990	212,759,167

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 11 to 76.

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

The Board of Directors is responsible for these Financial Statements which were approved by the Board of Directors and signed on their behalf of;

Chairman/ Director

Director

29 May 2020
Colombo.

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	2019 Rs.	2018 Rs.
Cash flow from operating activities			
Profit before tax		2,960,257,709	3,606,330,339
Adjustment for:			
Non cash items included in profit before tax	41.	4,061,421,032	2,009,117,605
Changes in operating assets	42.	(7,274,252,820)	(7,759,296,804)
Changes in operating liabilities	43.	19,218,607,096	2,335,364,021
Contribution paid to defined benefit plans	33.1	(146,286,891)	(125,672,259)
Taxes on financial services		(1,659,200,694)	(1,025,230,834)
Tax Paid	31	(915,600,248)	(958,313,173)
Net cash generated from/(used in) operating activities		16,244,945,185	(1,917,701,106)
Cash flows from investing activities			
Purchase of Property, plant and equipment	24.	(217,854,701)	(363,021,456)
Net purchase of intangible assets	25.	(13,815,989)	(50,630,424)
Investment in Fixed deposits (more than three months)		2,287,604,755	(1,493,138,238)
Proceeds from the sale of property, plant and equipment		4,203,104	12,009,452
Net cash (used in)/from investing activities		2,060,137,169	(1,894,780,666)
Cash flows from financing activities			
Net proceeds from the issue of ordinary share capital		-	-
Operating lease interest expense		(81,828,219)	
Payment of principal of Operating Lease		(276,245,501)	
Net proceeds from the Term Loans		7,534,500,000	-
Interest paid on debentures	30.1	(535,784,685)	(535,784,685)
Net cash from financing activities		6,640,641,595	(535,784,685)
Net increase/(decrease) in cash & cash equivalents		24,945,723,949	(4,348,266,457)
Cash & cash equivalents at the beginning of the year		9,639,016,719	13,987,283,176
Cash and cash at the end of the year		34,584,740,669	9,639,016,719

Reconciliation of Cash & Cash Equivalents

	Note	2019 Rs.	2018 Rs.
Cash and cash equivalent	17.	2,750,187,219	689,184,136
Favorable balances with banks			
Placements with Banks	18	9,798,274,942	6,496,692,932
Fixed deposits less than three months	21.2	22,571,266,384	2,520,602,739
Unfavorable balances with banks		(534,987,877)	(67,463,088)
		34,584,740,669	9,639,016,719

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 11 to 76.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Stated Capital Note 34 Rs.	Statutory Reserve Fund Note 35 Rs.	Special Reserve Fund Note 37 Rs.	General Reserve Fund Note 37 Rs.	Retained Earnings Note 36 Rs.	Total Rs.
Balance as at 01st 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 09	-	-	-	-	(72,485,552)	(72,485,552)
Restated balance under SFRS 09 as at 1st January 2018	3,870,936,931	663,652,150	518,042,478	2,843,208,353	1,644,423,195	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, recognized 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, recognized 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 31st December 2018	**8,047,229,930**	**717,331,468**	**571,721,796**	**3,057,925,624**	**2,315,905,812**	**14,710,114,630**
Balance as at 01st January 2019	8,047,229,930	717,331,468	571,721,796	3,057,925,624	2,315,905,812	14,710,114,630
Total Comprehensive Income for the year						-
Profit for the year	-	-	-	-	498,594,531	498,594,531
Other comprehensive Income	-	-	-	-	(80,468,366)	(80,468,366)
Total comprehensive income for the year	-	-	-	-	418,126,165	418,126,165
Transactions with equity holders, recognized directly in equity						-
Issued stated capital	-	-	-	-	-	-
Divident Paid					(193,546,847)	(193,546,847)
Transferred to Statutory Reserve Fund	-	24,929,727	-	-	(24,929,727)	-
Transferred to Special Reserve Fund	-	-	24,929,727	-	(24,929,727)	-
Transferred to General Reserve Fund	-	-	-	99,718,906	(99,718,906)	-
Excess from Merger (Note 23)					30,627,630	30,627,630
Transactions with equity holders, recognized directly in equity	-	24,929,727	24,929,727	99,718,906	(312,497,577)	(162,919,217)
Balance as at 31st December 2019	**8,047,229,930**	**742,261,195**	**596,651,523**	**3,157,644,530**	**2,421,534,400**	**14,965,321,578**

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 11 to 76.

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 Pradheshiya Sanwardana Bank Act No.41 of 2008. The registered office of the Bank is located at No 933, Kandy Road, Wedamulla, Kelaniya.

During the year, Pradeshiya Sanwardana Bank has amalgamated assets and liabilities of Lanka Puthra Development Bank as of 1 April 2019 as more fully described in note 23 to the Financial Statement.

Permanent, training and contract staff strength of the bank as at 31 December 2019 was 3469 (3,381as at 31 December 2018).

1.2 Principal Activities and Nature of Operation

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 Micro Finance Institutions and Small and Medium Enterprises. Further the Bank started Leasing Transactions during the year.

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 2019 were authorized for issue by the Board of Directors on 29 May 2020.

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 recognized as the present value of the defined benefit obligation.
- Financial assets held-for-trading are measured at fair value.

2.1.1 Changes in accounting policies and disclosures

In these Financial Statements, the Bank has applied SLFRS 16 and IFRIC 23, effective for annual periods beginning on or after 1 January 2019, for the first time.

SLFRS 16 - Leases

SLFRS 16 supersedes LKAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for various branches and Motor vehicles. Before the adoption of SLFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3.1.3 for the accounting policy prior to 1 January 2019.

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.
The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted as operating leases
The Bank recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right of use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right of use assets was recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- Right of use assets of LKR 1,039 million were recognised and presented in the statement of financial position within "Right of use assets".
- Additional lease liabilities of LKR 998 million (included in "Other liabilities") were recognised.
- The adoption of SLFRS 16 had no impact on the Bank's retained earnings and no material impact on its capital adequacy ratio.

IFRIC 23 - Uncertainty over income tax treatment

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 "Income Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed Bank the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Bank in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Bank.

Except for the changes mentioned above, the Bank has consistently applied the accounting policies for all periods presented in these Financial Statements.

2.1.2 Business combinations under common control

Business combinations between entities under common control are accounted for using pooling of interest method. Accordingly,

The assets and liabilities of the combining entities are reflected at their carrying amounts. No new goodwill is recognised as a result of the combination. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity.

Business combination was carried out by using provisional/estimated figures and during measurement period (one year), Pradeshiya Sanwardana Bank is required to reassess assets and liabilities merged as of 1 April 2019 and adjust merger reserve accordingly.

2.2 Statement of Compliance

The Financial Statements, as at 31 December 2019 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 Sanwardhana 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 Sanwardhana 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 Lankan Rupees has been rounded to the nearest rupees 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 & Aggregation

In compliance with LKAS 01 – "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 recognized amounts and there is an intention to settle on a net basis, or to realize 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, Note 21.2 and 28 to Financial Statements.

Cash and cash equivalents include cash in hand, other bank balances, Placement with banks, Investments in Fixed deposits (less than 3 month) and net of unfavorable bank balances.

2.7 Comparative Information

The Comparative information is classified whereever is necessary to conform to the current year's presentation. However, Bank has not restated comparative information for 2018 for leases within the scope of Sri Lanka Accounting Standards SLFRS 16 (Leases). Therefore, the comparative information for 2018 is reported under Sri Lanka Accounting Standard LKAS 17 (Leases) and is not comparable to the information presented for 2019. Transition to the SFLRS 16 disclosed in Note No. 25.1.

2.8 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements of the Bank in conformity with Sri Lanka Accounting Standards requires management to make judgments, 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, management has made the following judgments 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 recognized in the financial statements with substantial management judgment and/or estimates are collated below with respect to judgments/estimates involved.

2.8.1 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, 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.

2.8.2 Impairment Losses on Loans and Advances

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

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

2.8.3 Taxation

The Bank is subject to income tax and judgment 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, Note 26 and Note 31.

2.8.4 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, 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.

2.8.5 Useful Lifetime of the Property and Equipment

The Bank reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.8.6 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 recognized in the Statement of Financial Position but are disclosed unless they are remote.

2.8.7 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 judgment is exercised in establishing fair values which minimize 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 recognized 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 marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes 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 recognizes 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 recognized in the Income Statement loss when the inputs become observable, or when the instrument is derecognized.

3.1.1.4. Classification and subsequent measurement of financial instruments

3.1.1.4.1 Financial assets

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:

- Amortized cost, as explained in Note 3.1.1.4.1.1
- Financial assets measured at fair value through other comprehensive income Note 3.1.1.4.1.3
- Financial assets fair value through profit or loss (FVPL), as explained in Note 3.1.1.4.1.2

The classification depends on the Bank's business model for managing financial assets and the contractual terms of the financial assets' cash flows. The Bank classifies its financial liabilities at amortised cost unless it has designated liabilities at fair value through profit.

3.1.1.4.1.1 Loans and advances to customers, Financial assets at amortized cost

The Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortized 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.

3.1.1.4.1.1(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 realized 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.

3.1.1.4.1.1(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 amortization of the premium/discount).

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

In contrast, contractual terms that introduce a more than de minimize 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.

3.1.1.4.1.2 Financial assets fair value through profit or loss

Financial assets fair value through profit or loss comprise:

- Financial investments - for trading;
- Instruments with contractual terms that do not represent solely payments of principal and profit.

Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss as they arise.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

3.1.1.4.1.2(a) Financial investments - for trading

A financial investment is classified as financial assets recognised through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Investment in equity securities are classified as financial assets recognised through profit or loss and recognised at fair value. Refer Note 19.

3.1.1.4.1.2b Financial instruments designated as measured at fair value through profit or loss

Upon initial recognition, financial instruments may be designated as measured at fair value through profit or loss. A financial asset may only be designated at fair value through profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis. The Bank does not designate any financial instruments under this category.

3.1.1.4.1.3 Financial assets measured at fair value through other comprehensive income

Investment in equity instruments that are neither trading financial assets recognised through profit or loss, nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 "Business Combination" applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by Management due to long term nature of investment. For portfolios where Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized 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.

3.1.1.4.2 Financial liabilities

The initial and subsequent measurement of financial liabilities depends on their classification as described below:

At the inception the Bank determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as;

- Financial liabilities at Fair Value through Profit or Loss (FVTPL)
  - Financial liabilities held for trading
  - Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

3.1.1.4.2.1 Financial liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognised in profit or loss.

Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of the portfolio that is managed together for short term profit or position taking. This category includes derivative financial instruments entered in to by the Bank which are not designated as hedging instruments in the hedge relationships as defined by the Sri Lanka Accounting Standards - LKAS 39 on "Financial Instruments: Recognition and Measurements". Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

The Bank does not have any financial liabilities under this category.

3.1.1.4.2.2Financial liabilities at amortised cost

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities at amortised cost under "due to customers and other borrowings" as appropriate, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in "interest expenses" in the income statement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

This category consists of due to Banks, Due to other customers, and Debt issued and other borrowed fund.

3.1.1.5. Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019.

3.1.1.6. De-recognition of financial assets and liabilities

3.1.1.6.1 De-recognition due to substantial modification of terms and conditions

The Bank de-recognizes 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 recognized as a de-recognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized 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 de-recognize 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 de-recognition. 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 De-recognition 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 de-recognized when the rights to receive cash flows from the financial asset have expired. The Bank also de-recognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition.

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 de-recognition 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 recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes 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 de-recognized 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 de-recognition 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 recognized in the Income Statement.

3.1.1.7 Overview of the ECL principles

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 12month 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 recognized, the Bank recognizes 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 recognized based on a credit-adjusted EIR. ECLs are only recognized 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) de-recognition of the financial asset.

3.1.1.7.1 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 lows 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 recognized 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, whether scheduled by contract or otherwise, expected draw downs 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 realization 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 summarized below:

Stage 1 : The 12month 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 recognizes 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 recognizes 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, the ECL is recognized within Provisions.

3.1.1.7.2 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 recognized 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 re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairments only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognized 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 realizable 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

3.1.1.7.3 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 amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to the Income Statement. The accumulated loss recognized in OCI is recycled to the profit and loss upon de-recognition of the assets.

3.1.1.7.4 Purchased or originated credit impaired financial assets (POCI)

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

3.1.1.7.5 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 US$: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

3.1.1.7.6 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.

3.1.1.7.7 Collateral repossessed

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.

3.1.1.7.8 Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3.1.1.7.9 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. De-recognition 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.

When the loan has been renegotiated or modified but not de-recognized, 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.

3.1.1.7.10 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 recognized as a provision for loan losses in the Income Statement during the year of acquiring the said property in satisfaction of debt.

3.1.1.7.11 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

3.1.1.8 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	- Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2	- Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3	- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note no 44.

3.1.2. Property and Equipment

Property, Plant & Equipment (PPE) are recognized 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 recognized 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 capitalized 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 derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in other operating income/expense in the Income Statement in the year the asset is derecognized.

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

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 fulfillment 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. Finance 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 capitalized 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.

Capitalized 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.

3.1.3.2. Operating leases (Before 1st January 2019)

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.1.4. Intangible Assets

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

An intangible asset is recognized 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 amortization 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 amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial yearend. 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 amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the Income Statement.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives 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.

Am impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized 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 amortized over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortized 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 31st December 2019 by Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary using the projected unit credit method.

Recognition of Actuarial gains and losses: The Bank recognizes 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 recognized 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 recognized 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 recognized.

3.1.9.1. Interest and Similar Income and Expense

For all financial instruments measured at amortized 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 recognized 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 recognized 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 recognized 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 recognized over the commitment period on a straight-line basis.

3.1.9.4. 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 recognized in the Income Statement except to the extent it relates to items recognized directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognized in Equity or in OCI.

3.1.9.5. 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 24 of 2017 and the amendments thereto at the rates specified in Note 14 to the Financial Statements.

3.1.9.6. Deferred Tax

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

- Where 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 recognized for all deductible temporary differences, carry forward of unused tax credit sand unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Current tax and deferred tax relating to items recognized directly in equity are also recognized 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.

3.1.9.7. 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.

3.1.9.8. Nation Building Tax (NBT) on Financial Service

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 09 of 2009 and subsequent amendments thereto with effect from 01st January 2014.NBT on the financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services. This tax was abolished by the government with effect from 1 December 2019.

3.1.9.9. 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 recognized at the same time as the liability to pay the related dividend is recognized.

3.1.9.10. Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, the ESC is calculated on liable turnover. Currently, the ESC is payable at 0.5% and is deductible from the income tax payable. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the two subsequent years. This tax was abolished by the government with effect from 1 January 2020.

3.1.9.11. Debts Repayments Levy (DRL)

DRL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services in accordance with the Finance Act No. 35 of 2018 from 1 October 2018. The DRL rate applied in 2019 is 7% (2018 - 7%). This tax was abolished by the government with effect from 1 January 2020.

3.1.9.12. Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, CIL is payable at 1% of the profit after tax.

3.1.10. Dividends on Ordinary Shares

Dividends on ordinary shares are recognized 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.

3.1.11. 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.

3.1.12. 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 recognize 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
- Recognize 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 judgment.

4. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2019

The following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2019. The Bank intends to adopt these new and amended standards, if applicable, when they become effective.

SLFRS 17- Insurance contracts
SLFRS 17 "Insurance Contracts", is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 "Insurance contracts". The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first applies SLFRS 17. This standard is not applicable to the Bank.

Amendments to LKAS 1 and LKAS 8: Definition of material
Amendments to LKAS 1 "Presentation of Financial Statements" and LKAS 8 "Accounting policies, Changes in accounting Estimates and Errors" are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Bank's Financial Statements.

Amendments to SLFRS 3: Definition of a business
Amendments to the definition of a business in SLFRS 3 "Business Combinations" are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020 with early application permitted.

Amendments to references to the conceptual framework in SLFRS standards
Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- a new chapter on measurement;
- guidance on reporting financial performance;
- improved definitions of an asset and a liability, and guidance supporting these definitions; and
- clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

Since the amendments are effective for annual periods beginning on or after 1 January 2020, the Bank will not be affected by these amendments as at the reporting date. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Bank's Financial Statements.

5. GROSS INCOME

	2019 Rs.	2018 Rs.
Interest income (Note 6.1)	26,357,071,298	24,865,108,981
Fee and commission income (Note 7)	1,134,421,656	1,186,795,173
Net trading gain/(loss) (Note 8)	4,757,039	1,215,762
Other operating income (Note 9)	11,571,062	17,490,689
Total Gross Income	27,507,821,054	26,070,610,605

6. NET INTEREST INCOME

6.1 Interest Income

	2019 Rs.	2018 Rs.
Placements with banks	735,270,427	494,336,946
Financial assets at amortised		
Loans and receivables from other customers	21,735,964,322	21,016,590,253
Debt & other instruments	3,885,836,549	3,354,181,783
Total interest income	26,357,071,298	24,865,108,981

6.2 Interest expenses

	2019 Rs.	2018 Rs.
Due to banks	(1,308,319,793)	(1,000,002,236)
Due to other customers	(12,493,387,754)	(11,959,524,473)
Interest expense on lease liabilities	(102,173,728)	
Total interest expenses	(13,903,881,276)	(12,959,526,709)
Net interest income	12,453,190,022	11,905,582,272

7. NET FEE AND COMMISSION INCOME

	2019 Rs.	2018 Rs.
Fee and commission income	1,134,421,656	1,186,795,173
Fee and commission expenses	(278,304,299)	(259,105,166)
Net fee and commission income	856,117,357	927,690,007
Comprising		
Loans	852,512,689	905,397,905
Trade and remittances	7,630,593	6,582,445
Deposits	(253,121,115)	(239,902,296)
Others	249,095,191	255,611,952
Net fee and commission income	856,117,357	927,690,007

8. NET TRADING GAIN/(LOSS)

	2019 Rs.	2018 Rs.
Net mark to market loss - equity securities	(7,400)	(30,900)
Financial liabilities designated at fair value through profit or loss	370,699	-
Dividend income	4,393,740	1,246,662
Total	4,757,039	1,215,762

9. OTHER OPERATING INCOME (NET)

	2019 Rs.	2018 Rs.
Gain/(Loss) on sale of property, plant and equipment	3,811,675	11,206,047
ATM Income	7,433,448	4,551,002
Recoveries of NPL loans (Written Off)	325,939	1,733,639
Other operating income (net)	11,571,062	17,490,689

10. IMPAIRMENT CHARGES

	2019 Rs.	2018 Rs.
Placement with Banks (Note 18.1)	32,429	12,653
Loans and receivables from other customer		
Collective impairment (Note 20.2)	(1,076,946,691)	(1,265,040,780)
Individual impairment (Note 20.2)	(1,324,690,485)	(144,614,042)
Financial assets at amortised cost-Debt & other instruments		
Debentuers (Note 21.1.2)	(1,200)	2,840
Investment in Fixed Deposit (Note 21.2.2)	(6,668,755)	342,187
Credit related commitment and contingencies	(474,152)	(486,954)
Net impairment (charge) / reversal for loans and other losses	(2,408,748,853)	(1,409,784,095)

11. PERSONNEL EXPENSES

	2019 Rs.	2018 Rs.
Salary and bonus	3,670,368,673	3,612,325,825
Contributions to EPF/ETP	587,605,614	546,973,585
Contributions to defined benefit plans	323,313,062	265,384,959
Others	1,350,338,623	1,453,262,423
Total	5,931,625,972	5,877,946,793

12. OTHER EXPENSES

	2019 Rs.	2018 Rs.
Directors' emoluments	3,683,748	3,200,919
Auditors' remunerations	4,693,515	2,455,250
Professional and legal expenses	14,954,312	24,893,448
Office administration and establishment expenses	1,104,581,162	1,331,786,648
Computerization expenses	122,361,980	128,432,876
Business tax expenses	2,715,109	1,045,833
Other commission paid	74,325	185,670
Deposit Insurance Premium	145,699,228	132,813,463
Crop insurance levy	4,893,954	10,332,117
Staff security deposits interest	4,010,435	3,750,542
Capital loss on pawning advance	12,501	-
Total	1,407,680,268	1,638,896,765

13. TAXES ON FINANCIAL SERVICES & DRL

	2019 Rs.	2018 Rs.
Nation building tax	123,625,704	154,490,412
Value added tax	1,012,948,950	1,158,678,090
Debt repayment levy	601,522,646	190,079,946
Total	1,738,097,299	1,503,248,448

14. TAX EXPENSES

	2019 Rs.	2018 Rs.
Income taxation		
Taxation based on profits for the year (Note 14.1)	890,648,620	1,072,147,126
(Over)/ Under provision in respect of 2018/2019 year	-	(5,503,331)
Charge/(Reversal) of Temporary Differences (Note 26.2)	(167,082,742)	(37,148,265)
Total	723,565,878	1,029,495,530

14.1 Reconciliation of tax expenses

For the Year ended 31st December	**2019** **Rs.**	**2018** **Rs.**
Profit/(loss) before tax	1,222,160,409	2,103,081,891
(Less): Divident	(4,393,740)	-
Add: Tax effect of expenses that are not deductible for tax purposes	5,158,223,496	3,396,456,057
(Less): Tax effect of expenses that are deductible for tax purposes	(3,195,102,236)	(1,670,441,068)
Taxable profit	3,180,887,929	3,829,096,880
Income tax for the period (taxable profit @ applicable tax rate)	28%	28%
Current Tax expense for the period	890,648,620	1,072,147,126
Deferred tax charge/(reversal) (Note 26.2)	(167,082,742)	(37,148,264)
Income tax expense	723,565,878	1,034,998,862
(Over)/ Under provision in respect of 2017/2018 year	-	(5,503,331)
Income tax expense	723,565,878	1,029,495,531
Effective tax rate	59%	49%

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 31st December	**2019** **Rs.**	**2018** **Rs.**
Net profit attributable to ordinary equity holders of the Bank	498,594,531	1,073,586,361
Net profit attributable to ordinary equity holders	498,594,531	1,073,586,361
	Numbers	*Numbers*
Weighted average number of ordinary shares in issue	545,107,049	389,575,772
Basic earnings per ordinary share	0.91	2.76

16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

a. **Bank - Current year (2019)**

As at 31st December	Note	FVTPL	AC	FVOCI	Total
		Rs.	*Rs.*	*Rs.*	*Rs.*
ASSETS					
Cash and cash equivalent	17	-	2,750,187,219	-	2,750,187,219
Placements with banks	18	-	9,798,242,492	-	9,798,242,492
Equity Instruments at fair value through profit or loss	19	123,000	-	-	123,000
Financial assets at amortised cost-Loans and receivables from other customers	20	-	136,205,641,441	-	136,205,641,441
Financial investments at amortised cost-Debt & other instruments	21	-	45,664,745,400	-	45,664,745,400
Equity Instruments at fair value through other comprehensive income	22	-	-	2,289,919	2,289,919
Other financial assets	27	-	1,633,841,628	-	1,633,841,628
Total financial assets		**123,000**	**196,052,658,180**	**2,289,919**	**196,055,071,099**

b. **Bank - Current year (2019)**

As at 31st December	Note	Amortized cost	Total
		Rs.	*Rs.*
LIABILITIES			
Due to banks	28	22,050,009,005	22,050,009,005
Due to other customers	29	149,599,829,047	149,599,829,047
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Other liabilities	32	4,954,270,654	4,954,270,654
Total financial liabilities		**181,311,961,240**	**181,311,961,240**

a. **Bank - Previous year (2018)**

As at 31st December	Note	FVTPL	AC	FVOCI	Total
		Rs.	*Rs.*	*Rs.*	*Rs.*
ASSETS					
Cash and cash equivalent	17	-	689,184,136	-	689,184,136
Placements with banks	18	-	6,496,628,053	-	6,496,628,053
Financial assets held-for-trading/Equity Instruments at fair value through profit or loss	19	115,600.00	-	-	115,600
Financial assets at amortised cost-Loans and receivables from other customers	20	-	133,432,804,004	-	133,432,804,004
Financial assets at amortised cost-Debt & other instruments	21	-	27,920,326,465	-	27,920,326,465
Equity Instruments at fair value through other comprehensive income	22	-	-	4,176,342,999	4,176,342,999
Other financial assets	27		1,285,360,602	-	1,285,360,602
Total financial assets		**115,600**	**168,538,942,658**	**4,176,342,999**	**172,715,401,258**

b. **Bank - Previous year (2018)**

As at 31st December	Note	Amortized cost	Total
		Rs.	*Rs.*
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	1,797,328,111	1,797,328,111
Total financial liabilities		**159,163,489,025**	**159,163,489,025**

17. CASH AND CASH EQUIVALENT

	2019 Rs.	2018 Rs.
Cash in hand	627,224,228	539,995,648
Other bank balances	2,122,962,990	149,188,488
Total	2,750,187,219	689,184,136

18. PLACEMENTS WITH BANKS

	2019 Rs.	2018 Rs.
Money market placements	9,798,274,942	6,496,692,932
Less : Impairment for expected credit losses (Note 18.1)	(32,450)	(64,879)
Total	9,798,242,492	6,496,628,053

18.1 Analysis of Placements with Banks based on Exposure to Credit Risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Money market placements	9,798,274,942	-	-	9,798,274,942
Impairment for expected credit losses (18.2)	(32,450)	-	-	(32,450)
	9,798,242,492	-	-	9,798,242,492

As at 31 December 2018

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Money market placements	6,496,692,932	-	-	6,496,692,932
Impairment for expected credit losses (18.2)	(64,879)	-	-	(64,879)
	6,496,628,053	-	-	6,496,628,053

18.2 Impairment for expected credit losses- Placements with banks

	2019 Rs.	2018 Rs.
Balance as at 1st January	64,879	77,532
Net Reversal for the year (Note 10)	(32,429)	(12,653)
	32,450	64,879

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019			2018		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
People's Merchant Bank PLC	600	6,600	6,000	600	12,000	6,600
Seylan Development PLC	10,000	109,000	117,000	10,000	150,000	109,000
	10,600	115,600	123,000	10,600	162,000	115,600

19.1 Movement during the year

	2019 Rs.	2018 Rs.
As at 31st December		
Balance as at 01 January	115,600	146,500
Change in fair value during the year	7,400	(30,900)
Balance as at 31 December	123,000	115,600

20. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS

As at 31st December	2019 Rs.	2018 Rs.
Gross loans and receivables	144,693,550,841	137,769,683,363
(Less): Zero rate loan fair value adjustment	-	(8,596,304)
	144,693,550,841	137,761,087,059
(Less): Staff loan fair value adjustment	(820,595,233)	(830,165,393)
	143,872,955,608	136,930,921,667
(Less): Collective impairment charges (Note 20.2)	(6,024,186,378)	(3,179,680,359)
(Less): Individual impairment charges (Note 20.2)	(1,643,127,789)	(318,437,304)
Net loans and receivables from other customers	136,205,641,441	133,432,804,004

20.1 Analysis

As at 31st December	2019 Rs.	2018 Rs.
By product		
Pawning	13,746,633,225	11,454,807,949
Staff loans	3,560,904,130	3,478,770,159
Short-term	10,200,684,495	9,181,224,723
Long-term	117,185,328,990	113,654,880,532
Gross total	144,693,550,841	137,769,683,363
By currency		
Sri Lankan rupee	144,693,550,841	137,769,683,363
Gross total	144,693,550,841	137,769,683,363
By industry		
Agriculture and fishing	29,289,222,632	36,860,350,948
Manufacturing	22,724,128,191	22,906,922,131
Transport	165,435,909	244,473,642
Construction /housing	23,617,507,238	28,086,234,943
Traders	24,260,590,030	22,819,454,960
Others (consumptions/against deposit/staff/tourism)	44,636,666,841	26,852,246,739
Gross total	144,693,550,841	137,769,683,363

20. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS (Contd....)

20.2 Impairment for credit losses- Loans to and Receivables from Other Customers

	Individual	Collective	Total
Balance as at 1st January 2018 (SLFRS 9)			
Net charge to profit or loss	173,823,262	1,790,452,774	1,964,276,036
Impact on adoption of SLFRS 9 as at 1st January 2018	-	124,902,103	124,902,103
Balance as at 1st 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 31st December 2018	318,437,304	3,179,680,360	3,498,117,664
Net charge to profit or loss	1,324,690,485	1,076,946,691	2,401,637,175
Other movements / Write off	-	(33,815,719)	(33,815,719)
Merged of LDB Balances at at 01/04/2019	-	1,801,375,047	1,801,375,047
Balance as at 31st December 2019	1,643,127,789	6,024,186,378	7,667,314,167

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	Stage 2	Stage 3	Total
Balance as at 1st January 2019	1,016,251,838	928,793,193	1,553,072,633	3,498,117,664
Other movements / Write off	-	-	(33,815,719)	(33,815,719)
Merged of LDB Balances at at 01/04/2019	-	-	1,801,375,047	1,801,375,047
Net charge to profit or loss	532,168,933	399,311,287	1,470,156,955	2,401,637,175
Balance as at 31st December 2019	1,548,420,771	1,328,104,480	4,790,788,916	7,667,314,167

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1st January 2018	734,045,039	1,029,494,477	843,681,100	2,607,220,617
Write off during the perios	-	-	(860,361)	(860,361)
Other movements	-	-	145,063	145,063
Net charge to profit or loss	282,206,799	(100,701,284)	710,106,830	891,612,344
Balance as at 31st December 2018	1,016,251,838	928,793,193	1,553,072,633	3,498,117,664

20.4 Analysis of Loans and Receivables from Other Customers based on Exposure to Credit Risk

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired loans	-	-	2,167,069,767	2,167,069,767
Loans subjected to collective impairment				
Term Loan Other	2,244,069,768	163,572,465	150,428,444	2,558,070,676
Term Loan Industrial	8,648,858,829	4,781,267,666	2,263,175,309	15,693,301,803
Term Loan Commercial	13,170,138,143	5,630,911,781	2,679,471,299	21,480,521,223
Term Loan Agriculture	13,484,326,089	4,260,136,830	1,982,276,556	19,726,739,475
Term Loan Housing	29,413,240,500	5,202,725,506	3,081,110,334	37,697,076,341
Refinance	13,449,431,399	5,479,756,564	1,460,699,739	20,389,887,703
Liyaisura	176,702	241,926	44,670,618	45,089,246
Pawning	12,994,119,322	613,994,426	36,323,732	13,644,437,480
Leasing	614,413,902	125,161,486	149,258,704	888,834,092
Staff loans	3,699,555,923	-	-	3,699,555,923
Loans Against Deposits	6,564,153,380	-	-	6,564,153,380
SME	-	-	138,813,731	138,813,731
Gross loans to & receivable from other customers	104,282,483,958	26,257,768,650	14,153,298,234	144,693,550,841
Impairment for expected credit losses (20.3)	(1,548,420,771)	(1,328,104,480)	(4,790,788,916)	(7,667,314,167)
Net loans to & receivable from other customers (before zero rated loan and staff loan adjustments)	102,734,063,186	24,929,664,170	9,362,509,318	137,026,236,674

20. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS (Contd....)

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
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 to & 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 (20.3)	(1,016,251,838)	(928,793,193)	(1,553,072,633)	(3,498,117,664)
Net loans to & 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 & OTHER INSTRUMENTS

As at 31st December	2019 Rs.	2018 Rs.
Debentures- Quoted (Note 21.1)	516,934,932	516,934,932
Government debt securities-treasury bills & bonds	2,663,205,000	2,675,175,000
Investment in Fixed Deposits (Note 21.2)	42,492,391,559	24,729,332,669
Sub total	45,672,531,491	27,921,442,601
Less : Impairment for expected credit losses-Debentures (Note 21.1.1)	(10,020)	(8,820)
Less : Impairment for expected credit losses-Fixed Deposits (Note 21.2.1)	(7,776,071)	(1,107,316)
Total	45,664,745,400	27,920,326,465

*The amounts for the year ended 31st 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

	2019			2018		
	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.
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 2019	Stage 1	Stage 2	Stage 3	Total
Debentures- Quoted	516,934,932	-	-	516,934,932
Impairment for expected credit losses (21.1.2)	(10,020)	-	-	(10,020)
	516,924,912	-	-	516,924,912

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Debentures- Quoted	516,934,932	-	-	516,934,932
Impairment for expected credit losses (21.1.2)	(8,820)	-	-	(8,820)
	516,926,112	-	-	516,926,112

21. FINANCIAL INVESTMENTS AT AMORTISED COST-DEBT & OTHER INSTRUMENTS (Contd...)

21.1.2 Impairment for expected credit losses- Debentures Quoted

	2019	2018
Balance as at 1st January	8,820	11,660
Net Charge (Reversal) for the year	1,200	(2,840)
	10,020	8,820

21.2 Investment in Fixed Deposits

As at 31st December	2019 Rs.	2018 Rs.
Fixed deposits less than three months	22,571,266,384	2,520,602,739
Fixed deposits more than three months	19,921,125,175	22,208,729,930
Total	42,492,391,559	24,729,332,669

21.2.1 Analysis of Investment in Fixed Deposits based on Exposure to Credit Risk

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Investment in Fixed Deposit	42,492,391,559	-	-	42,492,391,559
Impairment for expected credit losses (21.2.2)	(7,776,071)	-	-	(7,776,071)
	42,484,615,488	-	-	42,484,615,488

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total
Investment in Fixed Deposit	24,729,332,669	-	-	24,729,332,669
Impairment for expected credit losses (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

	2019	2018
Balance as at 1st January	1,107,316	1,449,503
Net Charge (Reversal) for the year	6,668,755	(342,187)
	7,776,071	1,107,316

22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31st December	2019 Rs.	2018 Rs.
Unquoted Equity Securities (22.1)	2,289,919	4,176,342,999
	2,289,919	4,176,342,999

22.1 Unquoted equity Securities

	2019			2018		
As at 31st December 2018	No. of Shares/ Percentage	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
CRIB	1,821	2,289,919	2,289,919	600	60,000	60,000
Lanka Puthra Development	-	-	-	158,013,356	4,176,292,999	4,176,292,999
Total	1,821	2,289,919	2,289,919	158,013,956	4,176,352,999	4,176,352,999

Lankaputhra Development Bank is a licensed specialised Bank registered in Sri Lanka. On 31 December 2018 the Bank purchased 100% equity stake in Lankaputhra Development Bank, in line with Government Budget proposal for the year 2016 thereby Lankaputhra Development Bank (LDB) has merged with Regional Development Bank on 01 April 2020. Therefore the investments in shares of Lanka Puthra Development bank has netted off with the equity stake in Lanka Puthra Development Bank as of 01 April 2020 (Refer Note 23).

23. MERGER OF PRADESHIYA SANWARDANA BANK (PSB) AND LANKAPUTHRA DEVELOPMENT BANK LIMITED (LDB)

As proposed in the Government Budget of the year 2016 which proposed Lankaputhra Development Bank Limited (LDB) to be merged with Pradeshiya Sanwardana Bank (PSB) and upon getting granting of necessary approvals from relevant authorities including Cabinet of Ministers and the General Treasury, being the only shareholder. PSB issued new shares in favour of General Treasury to the value of Rs. 4,176 Mn effective on 31/12/2018 for the pending elimination of the investment in the share capital of LDB held by the General Treasury. Since the purpose of this transaction was to facilitate the merger between PSB and LDB , the General Treasury did not expect PSB to maintain a parent -subsidiary relationship with LDB . Along with the said purpose, the Secretary to the Treasury has granted the approval on 10th January 2019, to go ahead with the merger of LDB with PSB at a purchase consideration of Rs 4,176 Mn subject to any further upward revisions depending on future circumstances.

The banking operations of LDB was taken over by PSB effective from 1st of April 2019.

The carrying amounts of the identifiable assets and liabilities of the LDB as on 01 April 2019 which is the merger date is as follows;

	01-Apr-19
Assets	**Rs**
Cash and cash equivalents	58,546,614
Investment securities	6,350,226,459
Advances and other loans	1,786,699,583
Trade and other receivables	222,041,924
Property, plant and equipment	51,976,175
Deferred tax asset	30,627,630
	8,500,118,385
Liabilities	
Deposit liabilities	276,021,101
Interest bearing loans & borrowings	3,017,543,455
Provision for taxation	121,269,000
Trade and other payables	123,014,603
Treasury Finance - Other	403,134,631
Refinance loans payable	60,829,000
Retirement benefit obligations	29,641,368
Contingent provisioning	225,000,000
	4,256,453,158
Carrying amount of identifiable net assets acquired	**4,243,665,227**
Results of the merger of above entities are as follows:	
Value of consideration paid / Investment	4,176,292,930
Carrying amount of identifiable net assets merged	(4,243,665,227)
	(67,372,297)

Since this business combination is within entities under the common control of the Ministry of Finance, no goodwill is recognized and upon the merger, the excess of LKR.30,627,630/- was recognized in equity of Pradeshiya Sanwardana Bank and Rs. 36,744,667/- recognised in statement of comprehensive income. The additional provisioning including contingency provisioning agreed upon in determining purchase consideration is required to be reviewed in the future for reasonableness and if found unnecessary, be considered for further share issue in favour of General Treasury.

24. PROPERTY, PLANT AND EQUIPMENT

Property and Equipment

	2019							
	Land and Buildings	**Computer, Hardware**	**Office, Equipment, Furniture and Fittings**	**Motor Vehicles**	**Working Progress**	**Partition & Fittings**	**Other**	**Total**
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*
2019(Current year) Cost								
Opening balance at 01/01/2019	535,458,100	569,273,145	1,166,453,070	273,290,358	65,310,013	323,427,662	-	2,933,212,347
Merged of LDB Balances at at 01/04/2019	33,034,049	74,690,361	90,748,602	34,159,860		19,815,041	819,424	253,267,338
Additions	9,054,154	84,775,603	80,616,960	-	820,184	42,587,800	-	217,854,701
Disposals	-	(3,534,454)	(10,369,704)	(1,982,206)	-	(91,121)	-	(15,977,485)
Written off			(403,581)			-	-	(403,581)
Transfers during the Year	64,270,921	-	-	103,924,400	(64,270,921)	-	-	103,924,400
Reclassification Adjustments	-	-	531,750	-	-	(538,092)	-	(6,342)
Closing balance at 31/12/2019	641,817,225	725,204,656	1,327,577,095	409,392,411	1,859,276	385,201,289	819,424	3,491,871,377
Finance Lease								
Opening balance at 01/01/2019	-	-	-	103,924,400	-	-		103,924,400
Additions	-	-	-	-	-	-		-
Transfer				(103,924,400)				(103,924,400)
Closing balance at 31/12/2019	-	-	-	-	-	-		-
(Less): Accumulated depreciation								
Opening balance at 01/01/2019	126,018,162	402,426,641	745,865,596	217,479,645	-	167,973,678	-	1,659,763,721
Merged of LDB Balances at at 01/04/2019	13,887,672	60,302,792	69,714,923	32,621,194	-	10,325,452	-	186,852,032
Charge for the year	24,077,155	67,148,351	136,156,906	29,677,681	-	71,391,618		328,451,710
Disposals	-	(3,523,528)	(9,951,017)	(1,971,005)	-	(89,426)		(15,534,976)
Transfers during the Year		-	-	103,924,385		-		103,924,385
Reclassification Adjustments	-	-	-	-	-	(5,391)		(5,391)
Closing balance at 31/12/2019	163,982,989	526,354,256	941,786,408	381,731,899	-	249,595,931		2,263,451,483
Finance Lease								
Opening balance at 01/01/2019	-	-	-	101,587,422	-	-		101,587,422
Charge for the year	-	-	-	2,336,963	-	-		2,336,963
Transfers during the Year				(103,924,385)				(103,924,385)
Closing balance at 31/12/2019	-	-	-	-	-	-		-
(Less): Impairment charges	-	-	-	-	-	-		-
Net book value at 31/12/2019	477,834,236	198,850,400	385,790,687	27,660,512	1,859,276	135,605,359		1,228,419,894

24. PROPERTY, PLANT AND EQUIPMENT (Contd...)

24.1 Property and Equipment

	2018						
	Land and Buildings	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Partition & Fittings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.
2017(Previous year) Cost							
Opening balance at 01/01/2018	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 31/12/2018	535,458,100	569,273,145	1,166,453,070	273,290,358	65,310,013	323,427,662	2,933,212,347
Finance Lease							
Opening balance at 01/01/2018	-	-	-	103,924,400	-	-	103,924,400
Additions	-	-	-	-	-	-	-
Closing balance at 31/12/2018	-	-	-	103,924,400	-	-	103,924,400
(Less): Accumulated depreciation							
Opening balance at 01/01/2018	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 31/12/2018	126,018,162	402,426,641	745,865,596	217,479,645	-	167,973,678	1,659,763,722
Finance Lease							
Opening balance at 01/01/2018	-	-	-	87,484,026	-	-	87,484,026
Charge for the year	-	-	-	14,103,396	-	-	14,103,396
Closing balance at 31/12/2018	-	-	-	101,587,422	-	-	101,587,422
(Less): Impairment charges	-	-	-	-	-	-	-
Net book value at 31/12/2018	409,439,938	166,846,504	420,587,473	58,147,691	65,310,013	155,453,984	1,275,785,603

24. PROPERTY, PLANT AND EQUIPMENT (Contd...)

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 31st December	2019 Rs.	2018 Rs.
Asset Class		
Building	1,611,373	1,074,447
Computer, Hardware	281,329,053	260,937,120
Office,Equipment,Furniture and Fittings	485,701,259	827,789,963
Motor Vehicles	247,613,529	191,511,256
Partition & Fittings	86,726,907	5,152,049
	1,102,982,122	1,286,464,835

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. PROPERTY, PLANT AND EQUIPMENT (Contd...)

24.7 The details of freehold land and buildings held by the Bank as at 31st December 2019 are as follows:

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land	Cost of Building	Total Value	Accumulated Depreciation	Written down value
				Rs	Rs	Rs	Rs	Rs
Central Province								
Matale -No 62, Main Street, Matale	4.8	2,280	December 26, 2014	-	11,915,631	11,915,631	2,987,069	8,928,562
Dambulla - No734, Anuradhapura Road, Dambulla	8.2	2,210	December 18, 2003	-	2,851,908	2,851,908	1,972,458	879,450
Galewela - Dambulla Rd, Galewela	8.7	2,380	March 1, 2008	-	6,540,518	6,540,518	3,869,817	2,670,702
Wilgamuwa -Hettipola, Wilgamuwa	38.0	1,740	August 24, 2009	-	7,581,277	7,581,277	4,523,013	3,058,264
Agarapathana - No158, Hoolbrook, Agarapatana	10.8	1,598	August 17, 2012	-	1,260,000	1,260,000	636,000	624,000
Naula- 26,Dambulla Road,Naula	20.0	1,640	February 25, 1998	-	11,257,600	11,257,600	2,333,959	8,923,641
Laggala-New Town -Laggala	40.0	3,261		-	23,565,250	23,565,250	694,045	22,871,205
North Central Province								
Mihinthale - Trincomalee Road, Mihinthale	20.0	6,359	30-Dec-05	0	8859426.51	8,859,427	6193429	2,665,998
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	March 19, 2013	-	16,192,223	16,192,223	5,667,278	10,524,945
Galenbindunuwewa - Pola Road, Galenbidunuwewa	70.0	1,687	March 14, 2013	-	3,124,975	3,124,975	1,747,079	1,377,896
Medirigiriya - Main Street, Madirigiriya	40.0	-	December 31, 2007	-	9,643,650	9,643,650	5,794,833	3,848,817
Siripura - New Town, Siripura	30.0	4,973	February 24, 2016	-	22,291,625	22,291,625	4,293,879	17,997,746
Thirappane - Kandy Road, Thirappane	65.4	8,030	December 8, 2016	379,869.25	46,150,602	46,530,471	3,042,680	43,487,791
No.343,Mosque Road,Stage 01,Anuradhapura					125,000	125,000	6,250	118,750
North Western Province								
Mawathagama - Kandy Road, Mawathagama	21.5	-	March 3, 2016	10,801,311		10,801,311	-	10,801,311
P/O Kurunegala - No 155, Negombo Rd, Kurunegala	14.0	8,484	December 29, 2004	-	18,200,366	18,200,366	9,127,850	9,072,516
Polpithigama - Kurunegala Road,Polpitigama	20.0	2,784	December 30, 2014	-	17,504,901	17,504,901	4,449,162	13,055,739
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	December 30, 2014	-	25,188,128	25,188,128	6,243,128	18,945,000
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	March 25, 2003	-	5,792,157	5,792,157	2,960,097	2,832,060
Nattandiya - Marawila Road, Naththandiya	15.7	1,200	February 11, 2003	-	36,799,082	36,799,082	2,613,688	34,185,394
Puttlam - Kurunegala Road,Puttlam	51.0	1,250	June 26, 2006	-	3,802,742	3,802,742	1,663,949	2,138,793
Wariyapola-No 29/4,Adhikari Mawatha,Wariyapola.	10.0	6,208	November 12, 2013	-	35,609,963	35,609,963	6,736,316	28,873,647
Southern Province								
Kekanadura - Weherahena Rd, Kekanadura	12.0	1,704	May 10, 2004	1,418,000	1,194,535	2,612,535	895,629	1,716,906
Akmeemana - Ganegoda, Akmeemana	6.5	1,614	October 2, 1993	-	600,000	600,000	599,999	1
Galle Branch - No 301, Matara rd, Magalle, Galle	30.0	1,224	October 9, 1999	-	4,927,109	4,927,109	3,297,681	1,629,429
Katuwana - Uda Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001	1,320,000	7,406,958	8,726,958	5,553,527	3,173,431
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005	1,620,667	1,675,534	3,296,201	1,507,598	1,788,603
Uragasmanhandiya - Kosgoda Road,Uragasmanhandiya	20.0	1,940	April 10, 2012	-	13,354,618	13,354,618	5,158,907	8,195,711
Ambalantota - 139,Hambantota Road,Ambalantota	25.0	2,568	August 30, 2004	2,000,000	3,070,100	5,070,100	2,301,874	2,768,226
Agunakolapelessa,Ranna Road,Agunakolapelessa	12.0	2,371	August 27, 2001	-	3,470,348	3,470,348	2,179,232	1,291,116
D/O Galle - No 301, Matara rd, Magalle, Galle	30.0	2,000	October 8, 1999	1,750,000	4,884,716	6,634,716	3,385,137	3,249,580
No.01,Galwala Road,Hambantota	237.0	16,315		15000000	18034049.44	33,034,049	14864666.63	18,169,383
Uva Province								
Girandurukotte - Development Centre,Girandurukotte	10.1	1,661	November 30, 2011	-	3,227,674.2	3,227,674	1,362,767	1,864,907
Monaragal D/O-Monaragala Road,Buttala.	34.0	1,706	October 22, 1999	1,150,000	3,162,263	4,312,263	2,516,089	1,796,174
H/O - No 933, Kandy Rd, Wedamulla, Kelaniya	24.0	5,375	March 5, 2012	80,419,000	139,371,952	219,790,952	42,803,902	176,987,050
Sabaragamuwa Province								
Balangoda - No17,Rest House Approach Road,Balangoda	20.0	-	February 18, 2013	6,679,574		6,679,574		6,679,574
Eastern Province								
Swiss Village, Batticaloa,				173,370		173,370		173,370
Clock tower junction, front of busstand, Ampara				468,550		468,550		468,550
Total				123,180,341	518,636,883	641,817,225	163,982,988	477,834,236

25. INTANGIBLE ASSETS

As at 31st December	2019 Rs.	2018 Rs.
Computer Software		
Opening balance as at 1st January	228,670,607	178,040,183
Merged of LDB Balances at at 01/04/2019	33,826,261	
Additions	13,815,989	50,630,424
Closing balance as at 31st December	276,312,857	228,670,607
(Less): Amortization		
Opening balance as at 1st January	167,882,888	140,197,422
Merged of LDB Balances at at 01/04/2019	31,621,185	
Charge for the year	31,452,440	27,685,466
Closing balance as at 31st December	230,956,513	167,882,888
Net book value	45,356,343	60,787,719

25.1 Right of use assets

		2019	
	Building Rs.	**Motor Vehicles Rs.**	**Total Rs.**
Cost			
Balance as at 1 January 2019	-	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	946,598,134	51,945,918	998,544,052
Reclassification from Prepayments	40,529,572	-	40,529,572
Additions and Improvements	71,191,096	-	71,191,096
Cost as at 31 December 2019	**1,058,318,802**	**51,945,918**	**1,110,264,720**
Accumulated Amortization			
Balance as at 1 January 2019	-	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	-	-	-
Charge for the Period	237,745,060	17,336,505	255,081,566
Accumulated amortization as at 31 December 2019	**237,745,060**	**17,336,505**	**255,081,566**
Net book Value as at 31 December 2019	**820,573,742**	**34,609,413**	**855,183,154**

25.1.1 Lease Liability

		2019	
	Building Rs.	**Motor Vehicles Rs.**	**Total Rs.**
Balance as at 1 January 2019			-
Effect of adoption of SLFRS 16 as at 1 January 2019	946,598,134	51,945,918	998,544,052
Additions	71,191,096	-	71,191,096
Accretion of Interest	97,462,698	4,711,029	102,173,728
Payments	259,518,633	20,276,640	279,795,273
Balance as at 31 December 2019	**855,733,295**	**36,380,307**	**892,113,602**

25.1.2. Maturity Analysis of Lease Liability

	2019 Rs.
As at 31 December 2019	892,113,602
Less than 1 year	305,287,731
More than 1 year	586,825,871

25.1.3. The present value of operating lease commitments as at 1 January 2019 has been calculated using weighted average incremental borrowing rate of 11%.

26. DEFERRED TAX ASSETS/LIABILITIES

As at 31st December	2019 Rs.	2018 Rs.
Deferred tax asset	(935,849,723)	(624,199,853)
Deferred tax liability	239,533,239	156,866,994
Net deferred tax (asset)/liability	(696,316,484)	(467,332,859)

26.1 Amounts recognized in the Income Statement

	2019 Rs.	2018 Rs.
Recognized in profit or loss	(167,082,742)	(37,148,264)
Recognized in other comprehensive income	(31,293,253)	(66,160,248)

26.2 Movement in deferred tax balances

2019	Net Balance as at 01st January 2019	Balances merged from LDB as at 01/04/2019	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2019	Deferred Tax Asset	Deferred Tax Liability
Property, Plant and Equipment	156,886,994	7,091,947	(39,296,567)	-	124,682,374	-	124,682,374
Leases	-	214,157,744	(99,306,879)	-	114,850,865	-	114,850,865
Allowance for loan losses	(84,661,028)	(243,742,098)	41,348,381		(287,054,745)	(287,054,745)	-
Employee Benefits	(539,538,825)	(8,135,223)	(47,144,934)	(31,293,253)	(626,112,236)	(626,112,236)	-
Operating Lease	-	-	(22,682,742)	-	(22,682,742)	(22,682,742)	-
	(467,312,859)	(30,627,630)	(167,082,742)	(31,293,253)	(696,316,484)	(935,849,723)	239,533,239

2018	Net Balance as at 01st January 2018	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2018	Deferred Tax Asset	Deferred Tax Liability
Property, Plant and Equipment	130,971,824	25,895,170	-	156,866,994	-	156,886,994
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)	156,886,994

*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

27. OTHER ASSETS

As at 31st December	2019 Rs.	2018 Rs.
Cost		
Financial Assets		
Receivables	1,508,663,020	1,174,697,654
Deposits and Advances	50,129,607	32,845,888
Sundry debtors	33,327,220	27,271,799
Others	41,721,781	50,545,261
	1,633,841,628	1,285,360,602
Non Financial Assets		
Prepayment	88,100,810	90,529,937
Others	1,094,805,800	1,039,037,024
Tax Receivables	3,433,601	3,084,424
Less : Impairment Provision	(87,758,000)	-
	1,098,582,211	1,132,651,385
Total	2,732,423,839	2,418,011,987

28. DUE TO BANKS

As at 31st December	2019 Rs.	2018 Rs.
Borrowings	11,549,599,587	67,463,088
Leasing (28.1)	96,000	96,000
Refinance	10,500,313,417	11,030,775,734
Total	22,050,009,005	11,098,334,822

28.1 Maturity of the leasing

As at 31st December	2019 *Rs.*	2018 *Rs.*
Not later than 1 year	96,000	96,000
	96,000	96,000
Less - Interest in suspense	-	-
Total	96,000	96,000

29. DUE TO OTHER CUSTOMERS

As at 31st December	2019 Rs.	2018 Rs.
At amortized cost (29.1)	149,599,829,047	141,559,973,557
Total	149,599,829,047	141,559,973,557

29.1 Analysis

As at 31st December	2019 Rs.	2018 Rs.
By product		
Savings deposits	31,692,569,975	28,485,537,261
Long term savings	24,258,209,629	23,034,273,135
Fixed deposits	93,649,049,443	90,040,163,162
Total	149,599,829,047	141,559,973,557
By currency		
Sri Lanka rupee	149,599,829,047	141,559,973,557
Total	149,599,829,047	141,559,973,557

30. DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31st December	2019 Rs.	2018 Rs.
Redeemable debentures (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 31st December	2019 Rs.	2018 Rs.
Opening balance as at 1st January	4,707,852,534	4,707,852,534
Debenture Issued	-	-
Interest Payable	535,784,685	535,784,685
Interest Paid	(535,784,685)	(535,784,685)
Closing balance as at 31st December	4,707,852,534	4,707,852,534

Details of debenture issued

	Note	No. of Debentures	Face Value Rs.	Amortised Cost 2019 Rs.	Amortised Cost 2018 Rs.
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 Rs.100/- each issued in 2015.The debentures are quoted in the Colombo Stock Exchange.

Type	No of debentures	Face value (Rs.)	Amortized cost 2019 (Rs.)	Amortized cost 2018 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
A	21,288,500	2,128,850,000	2,320,446,500	2,320,446,500	2015/01/30	2020/01/30	Fixed - 9.00% per annum payable annually
B	3,610,200	361,020,000	377,053,640	377,053,640	2015/01/30	2020/01/30	Fixed - 8.81% per annum payable bi-annually
C	101,300	10,130,000	10,352,394	10,352,394	2015/01/30	2020/01/30	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 Rs.100/- each issued in 2017.The debentures are quoted in the Colombo Stock Exchange.

Type	No of debentures	Face value (Rs.)	Amortized cost 2019 (Rs.)	Amortized cost 2018 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
A	3,000,000	300,000,000	300,000,000	300,000,000	2017/03/31	2022/03/31	Fixed - 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	1,700,000,000	2017/03/31	2022/03/31	Fixed - 15.5% per annum
	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000			

31. CURRENT TAX LIABILITIES

As at 31st December	2019 Rs.	2018 Rs.
Balance as at 1st January	473,833,076	365,502,454
Current tax based on profit for the year (Note 14)	890,648,620	1,072,147,126
(Over) Under provision in respect of previous years (Note 14)	-	(5,503,331)
Payment of tax	(915,600,248)	(958,313,173)
Total	448,881,448	473,833,076

32. OTHER LIABILITIES

As at 31st December	**2019** **Rs.**	**2018** **Rs.**
Financial Liabilities		
Sundry creditors	1,661,234,520	129,239,225
Other payables	2,369,761,073	1,668,028,282
Inter bank transaction in transit	31,161,459	60,604
Operating Lease Liability (32.1)	892,113,602	-
	4,954,270,654	1,797,328,111
Non Financial Liabilities		
Other payables	1,014,443,518	661,242,651
Impairment provision for expected credit losses - credit related commitment and contingencies	2,206,273	1,715,667
	1,016,649,791	662,958,317
Total	5,970,920,446	2,460,286,430

32.1 Operating Lease Liability

	2019
As at 1st January 2019	
Effect of adoption of SLFRS 16 as at 1 January 2019	998,544,052
Additions	71,191,096
Accretion of Interest	102,173,728
Payments	(279,795,273)
As at 31st December 2019	**892,113,602**

33. RETIREMENT BENEFIT OBLIGATION

As at 31st December	2019 Rs.	2018 Rs.
Retirement Benefit Obligation (Note 33.1)	2,236,115,128	1,926,924,377
	2,236,115,128	1,926,924,377

33.1 Net Asset /(Liability) recognized in the Statement of Financial Position

As at 31st December	2019 Rs.	2018 Rs.
Opening balance as at 1st January	1,926,924,377	1,695,894,720
Provision made during the year (Note 33.2)	324,011,184	265,384,959
Merged of LDB Balances at at 01/04/2019	25,574,060	
Payable for resigned employees	(5,869,221)	(19,832,817)
Net Actuarial (Gain)/Loss on obligation (Note 33.3)	111,761,620	111,149,773
	2,382,402,019	2,052,596,635
Benefits paid by the Bank	(146,286,891)	(125,672,259)
	2,236,115,128	1,926,924,377

33.2 Amount Recognised in Income Statement

As at 31st December	2019 Rs.	2018 Rs.
Current Service cost	102,414,880	178,400,760
Interest Cost	221,596,303	86,984,199
Total amount recognised in the Income Statement	324,011,184	265,384,959

33.3 Amount Recognised in Statement of Other Comprehensive Income

As at 31st December	2019 Rs.	2018 Rs.
Net Actuarial (Gain)/Loss on obligation	111,761,620	111,149,773
Total amount recognised in Other Comprehensive Income	111,761,620	111,149,773

33.4 An actuarial valuation of the gratuity fund was carried out as at 31st December 2019 by Actuarial & 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	2019	2018
Discount rate as at 31st December	10.60%	11.50%
Future salary increment rate	8% (Every three years with the next increment due on 01st January 2021)	8% (Every three years with the next increment due on 01st January 2021)
Mortality	A1967/70 Mortality Table	A1967/70 Mortality Table
Retirement age	60 Years	60 Years

Expected average future working life of the active participants is 17 years. (15 years 2018).

33. RETIREMENT BENEFIT OBLIGATION (Contd...)

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.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2019		2018	
		Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year	Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability	Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year	Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability
		Rs.	Rs.	Rs.	Rs.
1%	-	156,043,798	(156,043,798)	127,505,630	(127,505,630)
(-1%)	-	(178,236,742)	178,236,742	(144,428,389)	144,428,389
-	1%	(191,192,223)	191,192,223	(156,697,174)	156,697,174
-	(-1%)	169,711,763	(169,711,763)	140,131,523	(140,131,523)

34. STATED CAPITAL

As at 31st December	2019	2018
	Rs.	Rs.
Ordinary shares		
Opening balance as at 1st January	8,047,229,930	3,870,936,931
Issue of shares	-	4,176,292,999
Closing balance as at 31st December	8,047,229,930	8,047,229,930

35. STATUTORY RESERVE FUND

As at 31st December	2019	2018
	Rs.	Rs.
Opening balance as at 1st January	717,331,468	663,652,150
Transfer during the period	24,929,727	53,679,318
Closing balance as at 31st December	742,261,195	717,331,468

36. RETAINED EARNINGS

As at 31st December	2019 Rs.	2018 Rs.
Opening balance as at 1st January	2,315,905,812	1,716,908,747
Profit for the year	498,594,531	1,073,586,361
Other comprehensive Income	(80,468,366)	(80,027,837)
Divident Paid	(193,546,847)	-
Opening Differed Tax effect	30,627,630	-
Transfers to other reserves	(149,578,359)	(322,075,908)
Impact of adopting SLFRS 09	-	(72,485,552)
Closing balance as at 31st December	2,421,534,400	2,315,905,812

37. OTHER RESERVES

a. Current year (2019)

	Opening balance as at 1st January	Movement/ transfers	Closing balance as at 31st December
	Rs.	Rs.	Rs.
General reserve Fund	3,057,925,625	99,718,906	3,157,644,530
Special Reserve Fund	571,721,796	24,929,727	596,651,523
Total	3,629,647,421	124,648,632	3,754,296,053

b. Previous year (2018)

	Opening balance as at 1st January	Movement/ transfers	Closing balance as at 31st December
	Rs.	*Rs.*	*Rs.*
General reserve Fund	2,843,208,353	214,717,272	3,057,925,625
Special Reserve Fund	518,042,478	53,679,318	571,721,796
Total	3,361,250,831	268,396,590	3,629,647,420

General reserve Fund

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.

Special Reserve Fund

The Special Reserve Fund is the result of the Bank transferring a certain amount of profit from retained earnings accounts to Special Reserve account. The purpose of setting up the 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 recognized 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 31st December	2019 Rs.	2018 Rs.
Guarantees and performance bonds	139,742,498	130,591,381
Other contingent items	93,153,311	83,883,453
Less : Impairment for expected credit losses-Guarantees	(2,189,819)	(1,715,667)
Total	230,705,990	212,759,167

38.1 Analysis of Commitment and Contingency Exposure to Credit Risk

As at 31 December 2019

	Stage 1	Total
Guarantees and performance bonds	139,742,498	139,742,498
Other contingent items	93,153,311	93,153,311
Impairment for expected credit losses (38.1.1)	(2,189,819)	(2,189,819)
	230,705,990	230,705,990

As at 31 December 2018

	Stage 1	Total
Guarantees and performance bonds	130,591,381	130,591,381
Other contingent items	83,883,453	83,883,453
Impairment for expected credit losses (38.1.1)	(1,715,667)	(1,715,667)
	212,759,167	212,759,167

38.1.1 Analysis of Commitment and Contingency Exposure to Credit Risk

	2019	2018
Balance as at 1st January	1,715,667	1,228,713
Net Charge for the year	474,152	486,954
	2,189,819	1,715,667

38.2 Litigation against the Bank

Litigation is a common occurrence in the banking industry due to 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 possible losses reasonably estimated, the bank makes adjustments to accounts for adverse effects for which the claims may have on its financial standing. As at 31/12/2019, the Bank has 39 legal claims against the Bank and all material claims have been adequately provided for. The Legal Department of the Bank is of the view that currently pending litigations against the Bank will not have a material impact on the reported financial results or the future operations of the bank.

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)

	2019 Rs.	2018 Rs.
Short term employment benefits	99,340,946	144,706,138
Post employment benefits	-	-
Total	99,340,946	144,706,138

39.2.2 Transactions , arrangements and agreements involving Key Management Personnel (KMP) and their Close Family Members (CFM)

Items in the Statement of Financial Position	2019 Rs.	2018 Rs.
Assets		
Loans and receivables	42,066,607	29,623,384
Total	42,066,607	29,623,384
Liabilities		
Deposits	74,224,998	85,532,058
Total	74,224,998	85,532,058

Items in the Statement of Profit or Loss	2019	2018
Interest income	3,242,450	2,004,840
Interest expenses	4,133,197	7,314,328
Total	7,375,648	9,319,169

39. RELATED PARTY DISCLOSURES

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 31.12.2019	Security Details 31.12.2019 Type	Value
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.	13,609,871	Land	107,714,801
Staff Vehicle Loans		16,574,093	Motor vehicle	38,500,000
Cash Backed Loans		4,437,731	Fixed Deposit	5,547,164
Consumptions and Other Loans		7,444,912		
		42,066,607		

Type of the Loan	Other Terms and Conditions	Balance as at 31.12.2018	Security Details 31.12.2018 Type	Value
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		

Total exposure to KMPs and their CFMs represents 0.2% of bank's regulatoty 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.

	2019 Rs.	2018 Rs.
Goods and Services Purchased	-	-
Total	-	-

39. RELATED PARTY DISCLOSURES (Contd...)

39.3 Transactions with the Significant Investor and Related Entities

In accordence in paragraph 25 of Sri Lanka Accounting Standard LKAS 24 on "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:

	Outstanding Balance	
	2019	2018
Items in the Statement of Financial Position	Rs.	Rs.
Assets		
Loans and receivables	235,326,181	278,035,660
Total	235,326,181	278,035,660
Liabilities		
Deposits	20,156,007,658	26,084,007,658
Total	20,156,007,658	26,084,007,658
Items in the Statement of Profit or Loss		
Interest income	14,256,228	16,426,398
Interest expenses	2,568,256,240	3,023,168,595
Total	2,582,512,468	3,039,594,994

39.3.1 Further transactions as detail 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 of 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 accomodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of of employees.

40. ASSETS PLEDGED AS SECURITY

The total financial assets recognized in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2019 and 2018 is shown in the preceding tables:

2019

	Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31-12-2019 Rs. Mn
1	Over Draft - BOC	1,326	FD 80912939	565.861	-
			FD 74353124	228.909	
			FD 82300125	242.000	
			FD 74817306	281.006	
			FD 74588793	262.113	
			FD 74619066	261.987	
2	Over Draft - PB	200	FD- 014-60-01-00014391-8	407.351	-

2018

	Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31-12-2018 Rs. 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	-

41. NON- CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

		2019 Rs.	2018 Rs.
Depreciation of property, plant and equipment / Amortization of ROU	24	585,870,239	291,335,272
Amortization of intangible assets	25.	31,452,440	27,685,466
Staff loan adjustment		712,227,331	126,180,269
Impairment chargers	10.	2,408,748,853	1,409,784,095
Capital loss on pawning advance	12	12,501	-
Liya isuru fair value adjustment		(8,596,304)	(97,919,405)
Changes in equity Instruments at fair value throu	8	7,400	30,900
Charge for retirement benefit obligation	11.	323,313,062	265,384,959
Movements of other funds		12,523,124	(424,266)
(Profit) / loss on sale of fixed assets	9.	(3,811,675)	(11,206,047)
Recoveries of NPL loans (Written Off)		(325,939)	(1,733,639)
Total		4,061,421,032	2,009,117,605

42. CHANGE IN OPERATING ASSETS

	2019 Rs.	2018 Rs.
Net change in loans and receivables from other customers	(6,947,870,967)	(7,444,837,849)
Change in other assets	(314,411,853)	(314,458,955)
Net change in Financial investments at amortised cost-Debt & other instruments	(11,970,000)	-
Total	(7,274,252,820)	(7,759,296,804)

43. CHANGE IN OPERATING LIABILITIES

	2019 *Rs.*	2018 *Rs.*
Net change in due to banks	7,665,484,695	466,600,195
Net change in due to other customers	8,042,488,385	1,729,003,711
Net change in other liabilities	3,510,634,016	139,760,114
Total	19,218,607,096	2,335,364,021

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 obervable 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 thar are unobservable:This category includes all instruments for which the valuation technique includes inputs not based on obeservable data and the unobservable inputs have a significantt 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 measurment is categorized. The amounts are based on the values recognized in the statement of financial position.

			2019	
As at 31st December	**Level 1**	**Level 2**	**Level 3**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Equity Instruments at fair value through profit or loss	123,000	-	-	123,000
Financial assets-fair value through other comprehensive income	-	-	2,289,919	2,289,919
	123,000	-	2,289,919	2,412,919

			2018	
As at 31st December	**Level 1**	**Level 2**	**Level 3**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
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

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. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)

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.

	Fair value hierarchy	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
		Rs.	*Rs.*	*Rs.*	*Rs.*
Financial assets					
Cash and cash equivalent	Level 2	2,750,187,219	2,750,187,219	689,184,136	689,184,136
Placements with Banks	Level 2	9,798,242,492	9,798,242,492	6,496,628,053	6,496,628,053
Financial investments at amortised cost-Debt & other instruments	Level 2	45,664,745,400	45,664,745,400	27,757,513,965	27,757,513,965
Loans and receivables from other customers - without impairment					
Pawning	Level 2	13,746,633,225	13,746,633,225	11,454,807,949	11,454,807,949
Staff loans	Level 2	3,560,904,130	3,560,904,130	3,478,770,159	3,478,770,159
Short-term	Level 2	10,200,684,495	10,200,684,495	9,181,224,723	9,181,224,723
Long-term	Level 2	117,185,328,990	117,185,328,990	113,654,880,532	113,654,880,532
Other assets		1,633,841,628	1,633,841,628	1,448,173,102	1,448,173,102
		204,540,567,579	204,540,567,579	174,161,182,619	174,161,182,619
Financial liabilities					
Due to banks		22,050,009,005	22,050,009,005	11,098,334,822	11,098,334,822
Due to other customers	Level 2	149,599,829,047	149,599,829,047	141,559,973,557	141,559,973,557
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		4,954,270,654	4,954,270,654	1,714,679,920	1,714,679,920
		181,311,961,240	181,311,961,240	159,080,840,833	159,080,840,833

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 37% 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 66% 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

2019

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalent	2,750,187,219	-	2,750,187,219
Placements with banks	9,798,242,492	-	9,798,242,492
Equity Instruments at fair value through profit or loss	123,000	-	123,000
Financial assets at amortised cost-Loans and receivables from other customers	50,151,465,844	86,054,175,598	136,205,641,441
Financial assets at amortised cost-Debt & other instruments	42,635,525,488	3,029,219,912	45,664,745,400
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property and equipment	-	1,228,419,894	1,228,419,894
Intangible assets	-	45,356,343	45,356,343
Right of use assets	-	855,183,154	855,183,154
Deferred tax assets	-	696,316,484	696,316,484
Other assets	585,688,247	2,146,735,593	2,732,423,839
Total assets	105,921,232,289	94,057,696,897	199,978,929,186
Liabilities			
Due to banks	6,050,082,637	15,999,926,367	22,050,009,005
Due to other customers	98,856,113,038	50,743,716,009	149,599,829,047
Debt issued and other borrowed funds	-	4,707,852,534	4,707,852,534
Current tax liabilities	448,881,448	-	448,881,448
Other liabilities	2,308,704,033	3,662,216,413	5,970,920,446
Retirement benefit obligation	152,156,112	2,083,959,016	2,236,115,128
Total liabilities	107,815,937,269	77,197,670,340	185,013,607,608
Maturity Gap	(1,894,704,980)	16,860,026,557	14,965,321,577
Cumulative Gap	(1,894,704,980)	14,965,321,577	-

2018

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
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 & other instruments	24,728,225,353	3,192,101,112	27,920,326,465
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	950,589,962	2,418,011,985
Total assets	91,753,609,268	85,183,710,157	176,937,319,425
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	1,926,924,377
Total liabilities	100,852,457,176	61,374,747,619	162,227,204,796
Maturity Gap	(9,098,847,908)	23,808,962,538	14,710,114,629
Cumulative Gap	(9,098,847,908)	14,710,114,629	-

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 of non-executive directors and members of 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 analyze 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 & 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 & 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 & 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. **RISK MANAGEMENT (Contd...)**

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 catogorised them in top major sectors, in accordence to the size of the portfolios.

The highest sector under this classification as per the banks closing books, 2019 is the Housing Loan followed by Commercial, Refinance/Interest subsidy loans, Agriculture, Industrial, Pawning, Loans against deposits, Staff loans, Consumption and Others, Liya Isura Loans.

Sector wise portfolios

1. Housing Loan: Housing loan carries the highest sectorial loan concentration with 26.05% as of December 31, 2019. Housing Loan consists ofTerm Loan - Housing and RDB Thilina Loans.

2. Term Loan Commercial : Loans provided for business purposes; retail, wholesale and others.

3. 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.

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, pension loans and other specialised loans schemes)

7. Liyaisura - Interest free loan scheme for women enttrepreneurs.

Corporate loans (Services, Manufacturing and Industry loans)

For corporate loans, the borrowers are assessed by specialized 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 realized 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.

46. **RISK MANAGEMENT (Contd...)**

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 balance sheet date 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 30days 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 2mn of the total exposure

Asset classes where the Bank calculates ECL on a collective basis include:
• Customers below the Individually Significant threshhold of LKR 2mn.

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
• Reypayment history

46. **RISK MANAGEMENT (Contd...)**

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 2 Summary of significant accounting policies and in Note 2.1 Significant accounting judgements, estimates and assumptions. 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' 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 2018 and 2019.

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.

31-Dec-19

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	
	2019	**2018**
Placements with banks	9,798,242,492	6,496,628,053
Financial assets held for trading/Equity Instruments at fair value through profit or	123,000	115,600
Financial assets at amortised cost-Loans and receivables from other customers	136,205,641,441	133,432,804,004
Financial assets at amortised cost-Debt & other instruments	45,664,745,400	27,920,326,465
Financial assets-fair value through other comprehensive income	2,289,919	4,176,342,999
Other assets	1,633,841,628	1,448,173,102
	196,055,071,099	174,163,574,359

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 recognized 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 recognized as a liability in the Statement of Financial Position.

Commitments and Contingent Liabilities	**2019**	**2018**
Contingent Liabilities	**Rs.**	**Rs.**
Bank Guarantee	139,742,498	130,591,381
Bills Send for Collection	93,153,311	83,883,453
Less : Impairment for expected credit losses-Guarantees	(2,189,819)	(1,715,667)
Total Contingent Liabilities and Commitments	230,705,990	212,759,167

46. RISK MANAGEMENT (Contd...)

46.2.3 Assessment of Expected Credit Losses

46.2.3 (a) Analysis of the total impairment for expected credit losses is as follows.

As at 31 December 2019	Note	Stage 1	Stage 2	Stage 3	Total
Placements with Banks	18.1	32,450	-	-	32,450
Financial assets at amortised cost-Loans and receivables from other customers	20.4	1,548,420,771	1,328,104,480	4,790,788,916	7,667,314,167
Financial investments at amortised cost-Debt & other instruments					-
Debentures- Quoted	21.1.1	10,020	-	-	10,020
Investment in Fixed Deposits	21.2.1	7,776,071	-	-	7,776,071
Credit related commitments and contingencies	38.1		2,189,819	-	2,189,819
Total impairment for expected credit losses		1,556,239,312	1,330,294,299	4,790,788,916	7,677,322,527

As at 31 December 2018	Note	Stage 1	Stage 2	Stage 3	Total
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 & 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		1,715,667	-	1,715,667
Total impairment for expected credit losses		1,017,432,853	930,508,860	1,553,072,633	3,501,014,346

46.2.3 (b) Movement of the total impairment for expected credit losses during the period

	2019	2018
Balance as at 1st January	3,498,117,663	2,089,178,139
Net charge to profit or loss	2,401,637,175	1,409,654,822
Other movements / Write off	(33,815,719)	(860,361)
Merged of LDB Balances at at 01/04/2019	1,801,375,047	145,063
Balance as at 31st December	7,667,314,167	3,498,117,663

46.2.4 Credit Exposure on Sector Wise - Loans and Receivables to Customers

	2019 Rs.	2018 Rs.
Agriculture	37,815,449,698	36,569,136,861
Industrial	24,421,355,279	22,639,910,870
Trade & Business	23,457,585,167	22,566,041,942
Transport Service	163,675,482	241,712,550
Housing	23,405,658,248	27,821,195,055
Consumption	23,113,413,599	16,810,803,896
Loans Against Deposit	6,310,336,711	5,347,234,829
Leasing	105,452,184	-
Staff	3,555,565,454	3,473,572,368
Interest Receivable on Loans & Advances	2,345,059,019	2,300,074,992
Total	144,693,550,841	137,769,683,363

46. RISK MANAGEMENT (Contd...)

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 personnel guarantees

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'.

2019	Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.
Placements with Banks	9,798,242,492	9,798,242,492
Equity Instruments at fair value through profit or loss	123,000	123,000
Financial assets at amortised cost-Loans and receivables from other customers	144,693,550,841	122,123,765,102
Financial investments at amortised cost-Debt & other instruments	45,664,745,400	45,664,745,400
Equity Instruments at fair value through profit or loss	2,289,919	2,289,919
Other assets	1,633,841,628	1,633,841,628

2018	Maximum Exposure to Credit Risk Rs.	Exposure Net of Collateral Rs.
Placements with Banks	6,496,628,053	6,682,475,675
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	117,399,373,361
Financial investments at amortised cost-Debt & 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

46. RISK MANAGEMENT (Contd...)

46.2.6 Collateral held and Other Credit Enhancements (Continued)

46.2.6.1 Type of Credit Exposure

The table below sets out the principle types of collateral held against different types of financial assets.

	Percentage of exposure that is subject to collateral exposure		Principal type of collateral held
	2019	2018	
In Rupees	Rs.	Rs.	
Loans and advances to retails customers			
Mortgage lending	22,569,785,739	20,370,310,002	Property
Personal loans	122,147,768,591	117,399,373,361	Personal Guarantee/Motor Vehicle/Equipment etc.
Investment debt securities			
Debenture - Commercial Bank	500,000,000	500,000,000	None
	145,217,554,330	138,269,683,363	

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 goes 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.

In Rupees	2019	2018
LTV ratio		
Less than 50%	-	-
51-70%	22,569,785,739	20,370,310,002
71-90%	-	-
91-100%	-	-
More than 100%	-	-
Total	22,569,785,739	20,370,310,002

46. RISK MANAGEMENT (Contd...)

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	
In Rupees	2019	2018	2019	2018	2019	2018
Carrying amount	144,693,550,841	137,769,683,363	45,672,531,491	27,921,442,601	232,895,808	214,474,834
Amount committed/guaranteed						
Concentration by sector						
Corporate:						
Other					232,895,808	214,474,834
Government			2,512,295,000	2,512,362,500		
Banks			43,160,236,491	25,409,080,101		
Retail:						
Personal Guarant	122,078,675,856	116,859,128,335				
Mortgages	22,569,785,739	20,808,657,214				
Unsecured lendin	45,089,246	101,897,814				
	144,693,550,841	137,769,683,363	45,672,531,491	27,921,442,601	232,895,808	214,474,834

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
* Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
* Monitoring liquid ratios, maturity mismatches, behavioral 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. RISK MANAGEMENT (Contd...)

46.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2019. 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 (2019)

Assets	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Cash and cash equivalent	2,750,187,219	-	-	-	-	2,750,187,219
Placements with banks	9,798,242,492			-		9,798,242,492
Equity Instruments at fair value through profit or loss	123,000					123,000
Financial assets at amortised cost- Loans and receivables from other customers	13,840,904,593	38,789,627,229	49,501,345,371	20,245,711,687	22,315,961,961	144,693,550,841
Financial assets at amortised cost- Debt & other instruments	22,069,935,725	20,565,579,743	516,934,932		2,512,295,000	45,664,745,400
Equity Instruments at fair value through other comprehensive income	-	-	-	-	2,289,919	2,289,919
Other assets	828,977,211	3,839,264	85,400,557	555,365,369	160,259,226	1,633,841,628
Total assets	49,288,370,241	59,359,046,236	50,103,680,860	48,721,403,520	24,990,806,106	232,463,306,963
Liabilities						
Due to banks	1,210,287,929	2,340,021,873	7,490,058,328	2,995,029,165	8,014,611,709	22,050,009,005
Due to other customers	39,329,966,301	59,526,146,737	9,305,044,506	13,488,014,745	27,950,656,759	149,599,829,048
Debt issued and other borrowed funds	2,707,852,534		2,000,000,000			4,707,852,534
Other liabilities	3,621,542,854	345,184,748	19,467,494	11,758,124	956,317,434	4,954,270,655
Total liabilities	46,869,649,618	62,211,353,358	18,814,570,329	16,494,802,033	36,921,585,902	181,311,961,241
Total net Asset/(Liability)	2,418,720,623	(2,852,307,122)	31,289,110,531	32,226,601,487	(11,930,779,796)	51,151,345,723

Contractual maturities of undiscounted cash flows of financial assets and liabilities (2018)

Assets	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
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	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 &	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 c	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	22,910,495,662	18,067,088,658	182,495,551,282
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	8,997,291,520	(10,272,877,666)	13,930,650,890

46. RISK MANAGEMENT (Contd...)

46.3.2 Contractual Maturities of Commitments & 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.

2019

Contingent Liabilities	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Bank guarantee (without impairment)	-	16,750,000	117,896,998	5,095,500	-	139,742,498
Other Contingent items- Bills sent for collection	93,153,311	-	-	-	-	93,153,311
Total Contingent Liabilities	93,153,311	16,750,000	117,896,998	5,095,500	-	232,895,808

2018

Contingent Liabilities	On Demand Rs.	Less than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
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

46.3.3 Statutory Liquid Assets Ratio

For the month of December 2019	32.38%
For the month of December 2018	24.27%

46.3.4 Due to Banks & Due to Other Customers (Deposits) to Loans and Receivables from Banks & Other Customers (Advances) Ratio

The Bank is aware of the importance of due to banks & 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 & Due to other customers (Deposits).

Due to banks & due to other customers to Loans and receivables from banks & other customers Ratio.

As at 31st December 2019	95.70%
As at 31st December 2018	98.16%

46. RISK MANAGEMENT (Contd...)

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 optimizing 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:

2019

As at 31st December	Carrying amount	Market risk measure Trading portfolios	Non-trading portfolios
Assets subject to Market risk			
Cash and cash equivalent	2,750,187,219	-	2,750,187,219
Placements with banks	9,798,242,492	-	9,798,242,492
Equity Instruments at fair value through profit or loss	123,000	123,000.00	
Financial investments at amortised cost-Debt & other instruments	45,664,745,400	-	45,664,745,400
Financial assets at amortised cost-Loans and receivables from other c	136,205,641,441	-	136,205,641,441
Loans and receivables from other customers	2,289,919	-	2,289,919
Other assets	1,633,841,628	-	1,633,841,628
Liabilities subject to Market risk			
Due to banks	22,050,009,005	-	22,050,009,005
Due to other customers	149,599,829,047	-	149,599,829,047
Debt issued and other borrowed funds	4,707,852,534	-	4,707,852,534
Current tax liabilities	448,881,448		448,881,448
Other liabilities	4,954,270,654	-	4,954,270,654

2018

As at 31st December	Carrying amount	Market risk measure Trading portfolios	Non-trading portfolios
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	
Financial investments at amortised cost-Debt & 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

46. RISK MANAGEMENT (Contd...)

46.4 Market risk (Contd...)

46.4.1 Exposure to Interest rate risk

2019	Carrying amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Cash and balances with central	2,750,187,219	2,750,187,219	-	-	-
Placements with banks	9,798,242,492	9,798,242,492	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	136,205,641,441	13,840,904,593	38,789,627,229	69,747,057,058	13,828,052,561
Financial investments at amortised cost-Debt & other instruments	45,664,745,400	22,069,935,725	20,565,579,743	516,934,932	2,512,295,000
Financial assets-fair value through other comprehensive income	2,289,919	-	-		2,289,919
Total undiscounted assets	194,421,106,470	48,459,270,029	59,355,206,972	70,263,991,990	16,342,637,480
Due to banks	22,050,009,005	1,210,287,929	2,340,021,873	10,485,087,494	8,014,611,709
Due to other customers	149,599,829,048	39,329,966,301	59,526,146,737	22,793,059,251	27,950,656,759
Debt issued and other borrowed funds	4,707,852,534	2,707,852,534	-	2,000,000,000	-
Other liabilities	4,954,270,655	3,621,542,854	345,184,748	31,225,618	956,317,434
Total undiscounted liabilities	181,311,961,241	46,869,649,618	62,211,353,358	35,309,372,362	36,921,585,902
Interest rate sensitivity	13,109,145,230	1,589,620,411	(2,856,146,386)	34,954,619,628	(20,578,948,423)

2018	Carrying amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Cash and balances with central	689,184,136	689,184,136	-	-	-
Placements with banks	6,496,628,053	6,496,628,053	-	-	-
Financial assets at amortised	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 & other instruments	27,920,326,465	18,964,295,863	5,763,920,670	516,934,932	2,675,175,000
Financial assets-fair value	4,176,342,999	4,176,292,999	-		50,000
Total undiscounted assets	172,715,285,657	43,277,575,435	41,460,978,574	71,717,535,756	16,259,195,892
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	1,797,328,111	1,518,319,093	15,485,661	263,523,357	-
Total undiscounted liabilities	159,163,489,023	42,681,202,851	56,803,037,045	31,924,815,318	27,754,433,809
Interest rate sensitivity	13,551,796,634	596,372,584	(15,342,058,471)	39,792,720,438	(11,495,237,917)

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. RISK MANAGEMENT (Contd...)

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 supporte 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 authorization 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 12.5% 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. CAPITAL MANAGEMENT (Contd...)

47.2 Capital allocation

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 optimization 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 maximization 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. SUBSEQUENT EVENTS

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements except the following disclosure:

Coronavirus (CovidCOVID 19) Outbreak

The outbreak and spread of the Corona Virus ("COVID 19") which originated in Wuhan, China in December 2019 is now a Global Pandemic having caused a disruption to overall global economic activity effecting most industries and sub-sectors. Whilst the precautionary and preemptive measures taken by the respective Government have varied, its implications have been felt across many industries and sub-sectors across the Globe.

The necessary COVID 19 containment measures taken by the Government of Sri Lanka has also naturally caused a temporary disruption to overall economic activity including work disruptions to business operations to several sectors thereby having implications on the Banking sector as a whole including People's Bank. The negative financial implications are likely to be felt by the Industry including People's Bank in year 2020.

The moratorium, the various concessions extended there from and the likely increase in non performing loans & advances in the post moratorium period are likely to have negative implications on the Bank's earnings and its liquidity position. Management is of the view that the negative implications on earnings are unlikely to unduly stress the Bank's regulatory capital ratios.

In this context, it must be noted that, the ECL at 31 December 2019 was estimated based on a range of forecast economic conditions prevailing as at that date. The impact to GDP and other key indicators will be considered when determining the severity and likelihood of the downside economic scenarios that will be used to estimate ECL during the course of the financial year 2020.

The Bank continues to take requisite precautionary measures to mitigate any potential impacts, to the full extent within its reasonable control and will keep its contingency and risk management measures under close review. As the situation continues to evolve and timelines for a normalization of economic activity remains yet an unknown, the impact to our core markets and the Bank's financial results cannot be reasonably estimated or reliably measured based on reasonable and supportable information that is available without undue cost or effort at the current stage.