

INVESTED IN CHANGING RIVES

ANNUAL REPORT 2019





Rooting for the empowerment of those with financial challenges, but those with the grit of choosing their own success, we at RDB continue to provide financial assistance and advisory services to local entrepreneurs of all caliber. As a financial pillar of the communities we serve, RDB facilitates personal and socio-economic development by providing solutions to individuals without bias, based on trust and maturity that comes with over 34 years of service to the nation.

RDB continues to uplift the livelihoods of micro, small and medium enterprise owners as well as women entrepreneurs that collectively form the economic lifeline of our country. Invested in Changing Lives, we serve our rural communities with pride, knowing that our contributions directly impact the financial growth and social stature of our customers and those that depend on them, with a far reaching impact on social and economic development of the nation.

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VISION, MISSION AND ABOUT RDB

VISION

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

MISSION

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

ABOUT RDB

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

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

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

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

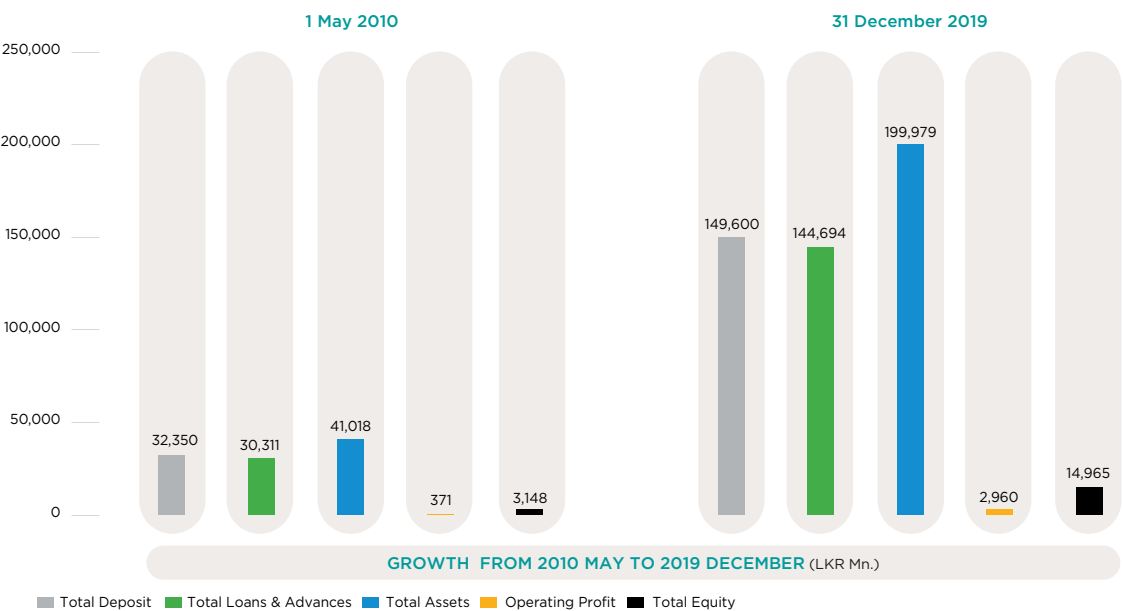
Today, with over six million loyal account holders complemented by 276 branches and empowered by over 2,735 professional permanent staff members, the RDB is well equipped to implement its vision of nurturing entrepreneurs who will propel our country's socio-economic prosperity.

OUR JOURNEY/MILESTONES

SUCCESS STORY AFTER MERGING SIX PROVINCIAL DEVELOPMENT BANKS AS ONE NATIONAL LEVEL REGIONAL DEVELOPMENT BANK

“RDB achieved almost LKR 200 Bn. Total Assets within Nine+ years after merging in 2010”

Total Deposit growth from LKR 32 Bn. to LKR 150 Bn.	369%
Total Loans and Advances growth from LKR 30 Bn. to LKR 145 Bn.	383%
Total Assets growth from LKR 41 Bn. to LKR 200 Bn.	388%
Operating Profit growth from LKR 371 Mn. to LKR 2,960 Mn.	698%
Total Equity growth from LKR 3 Bn. to LKR 15 Bn.	400%



Results achieved by Provincial Development Banks (i.e. Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks) during the twenty-four years period from 1985 to 2009, have drastically improved during the Nine+ years period (2010-2019) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

FROM MAY 2010 TO DECEMBER 2019

Total Deposits of RDB have increased by LKR 117 Bn. from LKR 32,350 Mn. to LKR 149,600 Mn.

Total Loans and Advances of RDB have increased by LKR 114 Bn. from LKR 30,311 Mn. to LKR 144,694 Mn.

Total Assets of RDB have increased by LKR 159 Bn. from LKR 41,018 Mn. to LKR 199,979 Mn.

HISTORY OF RDB

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

FINANCIAL HIGHLIGHTS

- As a financial institution dedicated to development banking, Regional Development Bank continues to play a vital role in the uplifting of social and economic development activities in the country. The Bank has been in the forefront of almost all the development programmes in the island playing a significant role as a financier. Our key asset is our customer base of over six million spread throughout the country, including North and East. Development of the country and its people is the main focus of the Bank. Hence, the Bank is committed to empowering them and thereby developing the nation through its 276 branches in the island-wide network.
- Total income of the Bank has increased by 6%, compared to the previous year. In the year 2019, operating profit decreased to LKR 2,960 Mn. which is 18% less than the operating profit of LKR 3,606 Mn. recorded in 2018. Return on Assets (ROA) before tax has recorded as 1.6% that stood at 2.1% in 2018.

SUPPORT SERVICES TO OUR CUSTOMERS

WesternUnion®WU

- Western Union** with NDB - Money transfers through the Western Union is an easier and speedy way to transfer funds with total security from any foreign destination to our country and customers are able to collect them through all branches of RDB which are widely located in rural and semi-urban areas.



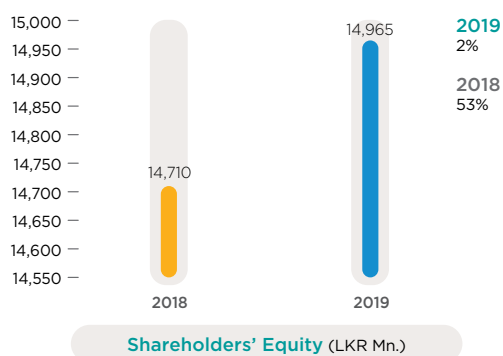
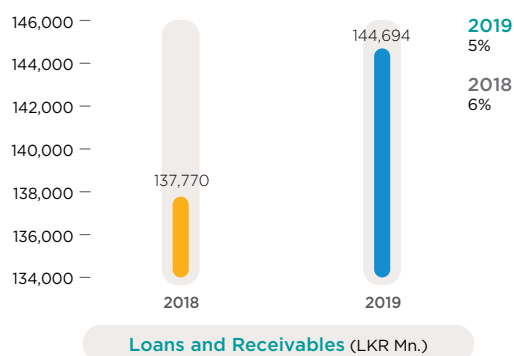
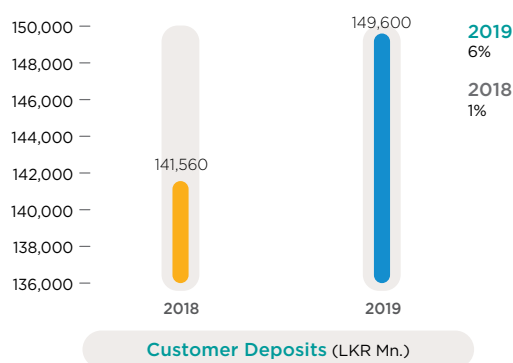
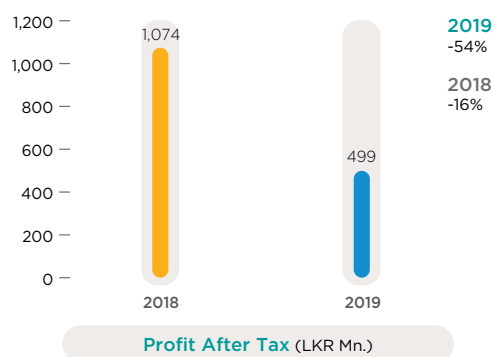
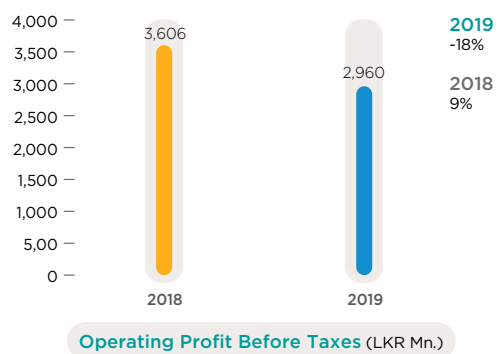
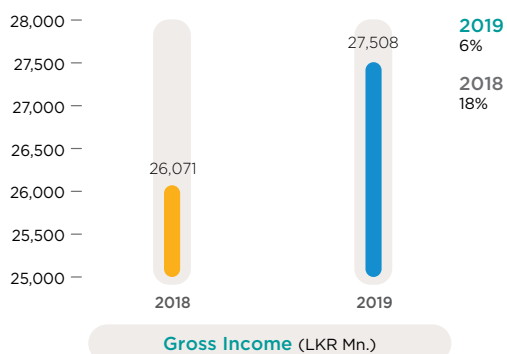
- Lanka Money Transfer (LMT)** with DFCC - Lanka Money Transfer remits money directly and instantly to customer bank account with no downtime. Lanka Money Transfer is with a wide international network consisting of over 275 locations and this service is available at 276 RDB branches island-wide.
- Utility Bills Payment Service** with Sri Lanka Telecom, Ceylon Electricity Board (CEB), National Water Supply and Drainage Board (NWSDB).
- RDB ATM and LankaPay ATM facility** - Now our customers are able to withdraw their money at any one of over 4,000 ATMs island-wide. Approximately 200,000 ATM cards have been issued to customers as of now.
- Common Electronic Fund Transfer (CEFTS) System** - Inter Bank fund transfer facility is available for our customers.
- Cash Deposit Machines (CDM)** - Available at selected branches.

FINANCIAL HIGHLIGHTS

	2019 LKR '000	2018 LKR '000	Change %
Operating results for the year			
Gross income	27,507,821	26,070,611	6
Operating profit before VAT	2,960,258	3,606,330	-18
Taxation	2,461,663	2,532,744	-3
Profit after tax	498,595	1,073,586	-54
Profit attributable to shareholders	418,126	993,559	-58
Assets and Liabilities			
Customer deposits	149,599,829	141,559,974	6
Loans and receivables	144,693,551	137,769,683	5
Total assets	199,978,929	176,937,319	13
Total liabilities	185,013,608	162,227,205	14
Shareholders' fund	14,965,322	14,710,115	2
Profitability			
Return on assets (Operating profits)	1.6%	2.1%	
Return on equity	3.4%	10.7%	
Non-performing loan ratio	9.6%	5.4%	

REGULATORY RATIOS

Capital adequacy ratios (As per BASEL III)	2019 %	Minimum Requirement %	2018 %	Minimum Requirement %
Common equity tier 1 capital ratio	10.90	7.00	11.58	7.00
Total tier 1 capital ratio	10.90	8.50	11.58	8.50
Total capital ratio	16.27	12.50	13.61	12.50
Statutory liquid assets ratio	32.38	20.00	24.27	20.00



CHAIRMAN'S MESSAGE

“

ALIGNING TO THE GOVERNMENT'S
VISION AND MISSION

“SAUBHAGYAYE DEKMA”

(VISTAS OF PROSPERITY AND
SPLENDOUR), OUR BANK WILL BE
CONTRIBUTING TO FOSTER AND
DEVELOP SMALL AND MEDIUM
SCALE ENTREPRENEURS AND
RURAL AGRICULTURAL PROJECTS
WITH THE AIM OF INCREASING THE
GDP OF SRI LANKA.

”



Having had the privilege of serving as the Chairman of RDB since 1 January 2020, I am pleased to share with you the Annual Report of the Bank for the year 2019. I believe this is a timely opportunity to take a look at last year's performance with the aim of acknowledging our achievements and to renew our focus on improvements we can make during the year 2020.

The main objective of RDB has always been to support the economic development of the country by empowering lower income segments through financial facilities and other relevant assistance to Micro, Small and Medium-scale industries as well as the rural agricultural sector.

Looking back at the year, the acquisition of Lankaputhra Development Bank (LDB) and receiving of loan facility from the Asian Development Bank (ADB) are the notable highlights. The acquisition of LDB, which was completed during the month of April 2019, paved the way for RDB to strengthen our Tier I capital adequacy, exceeding the stipulated benchmark of the Central Bank of Sri Lanka under Basel III.

Last year was one of the darkest years in the recent history of the country as the tragic Easter Sunday bomb blasts followed by the unfavourable political landscape sent the country into turmoil and significantly disrupted all banking functions. As a result of these unfortunate circumstances, our mandate to develop small and medium scale entrepreneurs who are specially engaged in the tourism sector and other affiliated sectors, was not achieved to an expected level.

A deep analysis on the causalities and potential measures to establish a sustainable growth in banking is currently being discussed and developed. Improvement in technology infrastructure, staff training and motivational programs and enhanced transparency will all be given the highest priority.

Aligning to the Government's Vision and Mission "Saubhagayaya Dekma" (Vistas of Prosperity and Splendour), our Bank will be contributing to foster and develop small and medium scale entrepreneurs and rural agricultural projects with the aim of increasing the GDP of Sri Lanka.

This new era under a new Government serves as a golden opportunity for us to redefine and re-engineer our banking business to achieve the noble objectives of the Bank. During this journey from 2020 onwards, our plan is to reposition the Bank to serve the SME sector of the country with a new business model. This reshaped business strategy would be adequately geared to withstand the existing and expected economic and other challenges.

I am convinced and confident that with the implementation of a new corporate business plan with the help of all stakeholders, will strengthen us to overcome the challenges faced by the Bank. Given a stable political climate, my aim is to elevate our Bank to the highest rank in banking services.

In closing, on behalf of our Board of Directors, I would like to thank the millions of customers and our other stakeholders for continuing to demonstrate confidence in our Bank. I also wish to extend my gratitude to the management staff and all RDB employees who have played a major role to protect the Bank during these times of turbulent economic conditions. As we enter the new financial year and a new era, I am confident that the Bank is ready to overcome all challenges and move forward in the years to come.



Mahinda Saliya
Chairman

GENERAL MANAGER'S/ CHIEF EXECUTIVE OFFICER'S REVIEW

“

THE BANK, DESPITE THE CHALLENGING OPERATING ENVIRONMENT, HAS RECORDED 13% YOY GROWTH IN THE ASSET BASE FROM LKR 176.94 BN. IN 2018 TO LKR 199.98 BN. IN 2019 WITH A STRONG BALANCE SHEET REFLECTING CAPITAL ADEQUACY RATIOS ABOVE THE REGULATORY REQUIREMENTS. IN THE YEAR 2019, WE HAVE RECORDED A 5.03% YOY GROWTH IN LOAN PORTFOLIO TO LKR 144.69 BN. TOGETHER WITH 5.68% GROWTH IN DEPOSIT PORTFOLIO TO LKR 149.6 BN.

”



Pradeshia Sanwardana Bank, commonly known as Regional Development Bank (RDB), completed 9 years as a national level bank from its origins of a regional level bank which counts a history of more than 34 years. I am pleased to submit this message to the Annual Report 2019 of the Bank for the second consecutive year as the General Manager/CEO of RDB.

I am happy to declare the year 2019 as the year which laid down the confidence for the future change of the Bank by addressing the strategic focus and action on capital adequacy issue, which was prolonged for the past few years. However, during the year 2019, an increased Non Performing Advances (NPA) portfolio was experienced. In my view our yardstick of success should not only be focused on just the number of projects financed or the volumes of Credit and the NPA portfolios but also on the projects we partner and support the economic sectors of the country as a state owned development bank and how the Bank has contributed in achieving the goals for which it has been established by the state.

According to the published statistics, the global economic growth has declined to 2.9% in the year 2019, from 3.6% in 2018, which may also be considered as one of the contributory factors for the lower growth of the Sri Lankan economy in the year 2019. Further, the economic growth of the country was curtailed by the Easter Sunday attacks which had a severe impact on the Tourism industry as well. The spillover effects of this impact on the Tourism industry were felt in the other sectors of the economy, especially in the supply chains of the Tourism industry where the RDB's client base represents a substantial portion.

The Banking industry in 2019 was also operating in an environment where a deposit rate cap was introduced and was replaced later by the lending rate cap. It may also be considered as another factor for the slower growth of RDB as the Bank's main income source is the interest income.

In April 2019, the operations of acquired Lankaputhra Development Bank (LDB) was brought under RDB by streamlining activities and completing the total acquiring process stipulated by the regulator, Central Bank of Sri Lanka (CBSL).

The loan agreement for the negotiated loan of USD 50.0 Mn. from Asian Development Bank (ADB) was also signed in June 2019. Further, as of the year end 2019, RDB has draw down funds to the value of USD 25.0 Mn. from the USD loan facility. ADB has also commenced technical assistance to the Bank by consultancy arrangements with the involvement of local and foreign consultants under the Technical Assistance grant of USD 1.0 Mn. as well.

The Bank also completed the procurement of the infrastructure upgrade of the banking system, another notable achievement for the Bank in the year 2019.

The Bank has introduced RDB Leasing in 2019 to the market with the competitive lowest interest rate. This was made possible with the acquisition of LDB. A deposit product, RDB Liya Saviya Plus, an Investment Saving Account also launched in 2019 specially design for Women Entrepreneurs to inculcate their savings habits.

After the Presidential election, the new Government announced a growth stimulus package in December 2019 that combines tax cuts - including a reduction of the VAT rate from 15% to 8%, increasing the annual VAT registration threshold level, new hiring of civil servants, and debt relief for SMEs with a view to raise growth in the medium term. However, the COVID-19 outbreak has aggravated the position of the global as well as the country's economy and not fulfilled the anticipated growth in the medium term.

The Bank, despite the challenging operating environment, has recorded 13% YOY growth in the asset base from LKR 176.94 Bn. in 2018 to LKR 199.98 Bn. in 2019 with a strong balance sheet reflecting capital adequacy ratios above the regulatory requirements. In the year 2019, we have recorded a 5.03% YOY growth in loan portfolio to LKR 144.69 Bn. together with 5.68% growth in deposit portfolio to LKR 149.6 Bn.

The net interest income of the Bank recorded a growth of 4.6% in 2019 to the value of LKR 12.45 Bn. while the operating profit (LKR 2.96 Bn.) and profit after tax (LKR 498.59 Mn.) recorded a decline of 17.91% and 53.56% respectively. The main contributory factors for the declines were increasing operating expenses and

GENERAL MANAGER'S/ CHIEF EXECUTIVE OFFICER'S REVIEW

impairment charges which were standing at LKR 7.96 Bn. and LKR 2.41 Bn. respectively. The impairment charges for the year 2019 have increased by 71% compared to the year 2018 due the substantial increase (89%) of the NPA portfolio (LKR 13.71 Bn.). The NPA portfolio increase was mainly attributed to the lower economic growth of the country and the Easter Sunday attacks coupled with comparatively lower quality of credit resulted in higher credit growth rate of the Bank in the year 2017. The gross NPA ratio of the Bank stood at 9.63% in the year 2019 as against 5.4% in the year 2018.

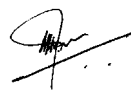
If the COVID-19 pandemic is not contained globally we could reasonably assume that the real economic recovery could begin only towards the middle part of the year 2021, especially for the sectors RDB is catering to at present. However, with the outbreak of COVID-19, the activities of business lines of the country with the state support is showing a transformation to the earlier predominant rural-based economy, especially towards value added agricultural based manufacturing industries and services. We, at RDB, could reasonably anticipate that the above shift will have some positive impact on our Bank in the coming years, if we re-position ourselves to cater to this situation and curtail the NPA portfolio growth of the Bank.

The declared mixed results of the Bank during the challenging year 2019 were achieved through the timely implementation of the plans drawn and executed by the management of the Bank together with the combined efforts of the entire staff of RDB.

We foresee the year 2020 as a year with deteriorating asset quality and consequent increase in impairment charges especially with the outbreak of COVID-19. The impact to our customer segment is very severe which the Bank experienced during the moratorium period where around 62% of our customers were requesting for concessions. However, as a team of the state owned development bank, we are geared ourselves to meet the challenges ahead of us positively, in order to achieve our Bank's goals and targets by serving our customer base effectively and efficiently.

In conclusion, I express my sincere gratitude to all our loyal customers for their continued patronage, the present and past Chairmen and members of the Board of Directors for their guidance and encouragement given to me during the year. I also wish to thank the entire staff of RDB for their support and commitment towards the achievement of the Bank's performance in 2019.

My sincere appreciation also goes to the shareholders of the Bank, officials of the CBSL, Ministry of Finance and other government institutions for their cooperation and support extended to RDB during the year 2019.



T Kuhan
General Manager/CEO

STEWARDSHIP

14	Board of Directors
18	Corporate Management Team
20	Regional General Managers/Senior Assistant General Managers
22	Assistant General Managers/Heads of Divisions

BOARD OF DIRECTORS



MR. MAHINDA SALIYA
CHAIRMAN

MR. M A B SILVA
DIRECTOR

MR. K B WIJEYARATNE
DIRECTOR

MR. A K SENEVIRATNE
DIRECTOR

MR. W M KARUNARATNE
DIRECTOR



MR. M S D RANASIRI
DIRECTOR

PROFESSOR H M W
ARIYARATHNA HERATH
DIRECTOR

DR. NIRMAL DE SILVA
DIRECTOR

MR. LALITH
ABEYSIRIWARDANA
DIRECTOR

MR. K E D SUMANASIRI
DIRECTOR

BOARD OF DIRECTORS

MR. MAHINDA SALIYA

CHAIRMAN

Mr. Mahinda Saliya holds a Bachelor of Commerce (Special) degree from the University of Kelaniya. He is well experienced in matters of Fiscal Policy, Government Finance, Statistics and also in the preparation of the Annual State Budget.

He has been employed in the state sector for 34 years during which he had worked at the Central Bank of Sri Lanka (CBSL) in the capacity of a Senior Assistant Director and a Regional Manager. He also served as the Deputy Director, Director Budget, and Additional Director General of State Accounts at the General Treasury. He had also represented Director Boards as a member in several Government Institutions as the representative of the Treasury.

The Rajarata Development Bank, Kotalawala Defence University, Defense Service Command and the Staff College, Rakna Lanka Arakshaka Limited, Sri Lanka Land Development Corporation, Tower Hall Theater Foundation and Selacine Television Institute are some of the State Institutions where Mr. Saliya had represented as a member of the Boards of Directors.

MR. M A B SILVA

DIRECTOR (TILL 4 MARCH 2020)

Mr. Silva is the Senior Deputy General Manager - Banking Operations of People's Bank.

Mr. Silva joined the bank in 1987 and counts over 31 years of experience & deep-rooted knowledge in banking operations. Being the Senior Deputy General Manager – Banking Operations, Mr. Silva oversees the functions of 04 main divisions preside over by separate heads responsible for the activities of Channel Management division which is the regulatory unit of the branch network and supplementary network comprised of ATMs, CDMs and Kiosks, Marketing, Information Technology & Banking Support Services division of People's Bank.

Mr. Silva is a Degree holder (B.A) from the University of Peradeniya and has a professional banking qualification of AIB - Sri Lanka with extensive local and international training / exposure on the subject matter of his specialty. He is also an Associate Member of the Institute of Bankers of Sri Lanka.

MR. K B WIJAYARATNE

DIRECTOR

Mr. Kithsiri B Wijeyaratne is the Senior Deputy General Manager of the National Savings Bank overseeing the areas of Finance and Planning, Research and Development, Superannuation and Treasury Back Office. He counts over 35 years experience in the Audit and Financial services sector locally and overseas having served in senior management positions at premier financial institutions with extensive experience in the field of Insurance and Banking.

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

Mr. Wijeyaratne holds a Second-class Honors degree, BSc in Business Administration from University of Sri Jayewardenepura

Sri Lanka and Diploma in Public Finance and Management (DPFM) from Sri Lanka Institute of Development Administration (SLIDA).

MR. A K SENEVIRATNE

DIRECTOR

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

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

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

MR. W M KARUNARATNE

DIRECTOR

Mr. W M Karunaratne, was appointed as an Independent/ Non-Executive Director to the Board of Directors of Pradeshiya Sanwardana Bank on 03.01.2020. Mr. Karunaratne is a retired Assistant Governor of Central Bank of Sri Lanka and counts over 30 years of experience in Banking. He has also worked as a consultant at Ministry of Finance for the World Bank funded project of "Warehouse Receipts Financing Project". He was the Chairman/ CEO of RRDB - Anuradhapura as well as a Board Director of Ruhuna Development Bank.

He has published two books on Banking with the poor (Group lending) and Rural Savings Mobilization, 6 books on Poverty lending, SME Financing, Lift Irrigation, Home Gardening, Dairy Development, Financial Literacy as well as a book on Warehouse Receipts Financing.

Mr. Karunaratne holds a B A (Honors) Degree in Social Sciences from University of Peradeniya and LLB (Honors) from Open University of Sri Lanka. Further, Mr. Karunaratne is an Attorney at Law since 2002.

MR. M S D RANASIRI

DIRECTOR

Mr. M S D Ranasiri, was appointed as an Independent/ Non-Executive Director to the Board of Directors of Pradeshiya Sanwardana Bank on 03.01.2020. Mr. Ranasiri is the former Director General of Department of Treasury Operations of Ministry of Finance.

He holds a Bachelor of Commerce (Special) Degree from University of Colombo and counts over 30 years of experience in the state sector. Mr. Ranasiri had also served as a Board Director in State Mortgage and Investment Bank and Development Lotteries Board as a representative from the General Treasury.

PROFESSOR H M W ARIYARATHNA HERATH

DIRECTOR

Prof. H M W Ariyaratna Herath holds a Bachelor of Arts Special Degree in Economics from the University of Peradeniya, Master of Philosophy in Economics from University of Peradeniya, Master of Science in Development and Resource Economics from Norwegian University of Life Sciences and Doctor of Philosophy from Post Graduate Institute of Agriculture, University of Peradeniya. He is a prominent academia and a researcher in the fields of Development Economics, Money and Banking, Project Analysis, Microfinance and Poverty analysis.

He has been employed in the University of Peradeniya for 26 years in the posts of a Lecturer, and then Senior Lecturer, and as a Professor. During this period he had also served at the National Institute of Co-operative Development (NICD), Polgolla in the capacity of Director (Academic and Development), and International Research Centre, University of Peradeniya as a Deputy Director. Currently he holds the position of the Head of the Department, Department of Economics and Statistics, University of Peradeniya.

Prof. H M W Ariyaratna Herath has served as a consultant and prepared reports for many national and international organisations such as Pathfinder Foundation Colombo; Plan International Sri Lanka; IFAD and Ministry of Posts, Telecommunication and Udarata Development; North Central Provincial Council; Road Development Authority, Sri Lanka; UNDP and Central Provincial Council.

He has published several books of scholarly work on various fields. Principles and Project Planning and Appraisal, Microfinance: Theory and Practice, Gender Responsive Budgeting Process in Sri Lanka are some of the books among them. He has also published many research articles in various national and international refereed journals.

DR. NIRMAL DE SILVA

DIRECTOR

Dr. Nirmal De Silva is an award winning business professional and entrepreneur with close to two decades of 'C Level' experience across the world, where he has provided leadership to a number of Multi National and Fortune 500 companies. Over the last few years his focus has been on the Real Estate Industry, Strategy Consulting and Start-ups.

Dr. De Silva is currently serving as the Co-Founder/CEO of Paramount Realty. He is also the Founder of TYNA Consulting which is a Boutique Consultancy focused on Strategy, Leadership, Impact Investment, Strategic Power Play and Transformational Interventions (particularly for SME's) and Social Enterprises. In addition Dr. De Silva serves on the Board of a number of companies in diverse industries such as agriculture, food and beverage, technology, handicrafts, education, learning and development, facilities management, portfolio investment, professional services, digital entertainment, consumer goods and lifestyle services.

Not only he is a well-respected thought leader, he is also a much sought after Start up Mentor, Impact Investor and Public Speaker. He is also an important influencer in shaping up the start-up and social enterprise eco-system in the country.

On an academic front Dr. De Silva is an Associate Professor, Visiting Lecturer and Thesis Supervisor for Doctoral Level programs in a number of local and international universities.

DR. DE SILVA POSSESSES THE FOLLOWING QUALIFICATIONS

- Doctorate in Business Administration (Specialisation in HRM).
- Master of Business Administration (Australia).
- Bachelor of Business Management (Australia).
- Certified Management Accountant (Australia).
- Post Graduate Diploma in Marketing (CIM-UK).
- Master Project Manager (USA).
- Fellow Association of Business Executives (UK).
- Fellow American Association Project Management (USA).
- Fellow Institute of Chartered Professional Managers (Sri Lanka).
- Life Member Sri Lanka Institute of Marketing (SLIM).

MR. LALITH ABEYSIRIWARDANA

DIRECTOR

Mr. Lalith Abeysiriwardana was appointed as an Independent/ Non-Executive Director to the Board of Directors of RDB on 03.01.2020. Mr. Abeysiriwardana is an Attorney at Law by profession since 1996. He holds a Degree in Bachelor of Law (LL.B) from University of Colombo and Attorney at Law from Law College of Sri Lanka.

At present Mr. Abeysiriwardana holds the position of Director of Lead Business Development and Management Company (Pvt) Ltd, Foods (Pvt) Ltd as well as Lead Hardware and Construction (Pvt) Ltd.

MR. K E D SUMANASIRI

DIRECTOR

Mr. Sumanasiri joined the Bank of Ceylon in 1990, having obtained a Bachelor of Science (Hons.) Degree in Business Administration from the University of Sri Jayewardenepura. He is also an Associate Member of the Institute of Bankers of Sri Lanka and has followed a Leadership course at the Harvard Business School of Harvard University of USA. He was appointed as a Deputy General Manager of Bank of Ceylon from April 2013.

His wide experience in Retail Banking, Micro Finance, Corporate Finance and Human Resource Development has taken through management and leadership roles in the Bank of Ceylon branch network. He held several positions in Bank of Ceylon as Manager, Area Manager, Operations Manager and Asst. General Manager.

While serving as a Faculty member of the Bank of Ceylon Training Institute, holding the position of Manager (Training), Mr. Sumanasiri has readily responded to uplifting the knowledge of staff of Bank of Ceylon. He was instrumental in the career development of the staff.

Soon after the three-decade conflict period came to an end in the Northern part of Sri Lanka, Mr. Sumanasiri took over the Northern Province as the Assistant General Manager of Bank of Ceylon and played a leading role in uplifting the livelihood of the resettled people in the area and he has made an immense contribution to boom the economy of the Northern Province. Also, he played a major role in expanding the Delivery Channels in the Northern areas.

With his extensive experience and expertise in Micro Finance and Retail Banking, he was able to take a dynamic role to propel Bank of Ceylon to greater heights in the Northern Province.

At present, Mr. Sumanasiri is serving as a Senior Deputy General Manager of Bank of Ceylon and holds several director positions at Ceybank Holiday Homes, Koladeniya Hydropower (Pvt) Ltd and Hotels Colombo of Grand Oriental Hotel. In addition he is also an alternative Board member of the Institute of Bankers of the Sri Lanka and LankaClear (Pvt) Ltd.

CORPORATE MANAGEMENT TEAM



MR. T. KUHAN
GENERAL MANAGER/CEO

Mr. T. Kuhan, a professional banker, joined RDB in September 2011 after serving two reputed private banks in Sri Lanka, namely HNB and Union Bank of Colombo. He counts over 29 years of continuous service exclusively in the banking sector in different managerial capacities with exposure to development banking, corporate credit, branch banking, Risk Management and trade financing. He is a holder of Masters in Financial Economics and Postgraduate-Diploma in Economic development both from the University of Colombo. His other qualifications are Postgraduate Diploma in Bank Management and Diploma in Banking and Finance both from the Institute of Bankers of Sri Lanka (IBSL) and National Diploma in Technology (NDT) in Mechanical Engineering awarded by University of Moratuwa. He is a Senior Fellowship Holder of IBSL. He is also an examiner and a visiting lecturer of IBSL.



MR. VAJIRA JAYASINGHE
CHIEF INFORMATION OFFICER

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



MR. K. M. J. S. KARUNATHILAKA
HEAD OF HR DEV. & ADMIN.
(till June 2020)

Mr. K. M. J. S. Karunathilaka, a HR specialist with more than 32 years experience, joined RDB in July 2014. He worked as Assistant General Manager/Head (Human Resources and Logistics) of State Mortgage and Investment Bank (SMIB). He served as Additional Project Director (HRD & Admin.) in Gamidiriya (World Bank-aided project). He also worked as Director (HRD and Admin.) of Sri Lanka Rupavahini Corporation and Senior Management Consultant and Manager (Admin. And Finance) of Sri Lanka Institute of Co-operative Management. Mr. Karunathilaka possesses a B.Sc. Business Administration (Special) Degree from University of Sri Jayewardanepura (1986), holds a Postgraduate Certificate in HRM (1996) and an MBA (2003) from the Postgraduate Institute of Management (PIM). He is an Associate Member of the Institute of Personnel Management of Sri Lanka (IPM). He is a recipient of the National HR Excellence Award 2010 from IPM. Mr. Karunathilaka has obtained Certification for conducting HRD Audits from IPM (2017) as "Certified HR Auditor".



MR. P SUMEDA EDIRISURIYA
CHIEF FINANCIAL OFFICER

Mr. Edirisuriya graduated from the University of Sri Jayewardenepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr. Edirisuriya counts over 29 years of experience in the fields of Auditing, Accounting, Taxation, Management Consultancy and Banking and Finance at leading institutions including Ernst & Young - Colombo, National Development Bank and Seylan Bank. He joined RDB in January 2017. Prior to his appointment as Chief Financial Officer at RDB, he has held the positions of Chief Financial Officer, Compliance Officer and Acting General Manager/CEO at Lankaputhra Development Bank.



MR. A H M B JAYASINGHE
DEPUTY GENERAL MANAGER –
CREDIT & RECOVERY

Mr. Jayasinghe graduated from the University of Sri Jayewardenepura Sri Lanka with a B.Sc. Business Administration Special Degree, in 1986. He holds Postgraduate Executive Diploma in Bank Management from Institute of Bankers of Sri Lanka, Postgraduate Diploma in Management from University of Wayamba, Postgraduate Diploma in Regional Development from NIBM Sri Lanka. After the graduation he joined the Regional Development Bank in 1987 and served at the levels of Branch Manager, Zonal Manager, District Manager, Chief Manager, Assistant General Manager and Regional General Manager. Mr. Jayasinghe has over 31 years of experience in the Banking Industry.



MR. C L PIHILLANDA
DEPUTY GENERAL MANAGER –
OPERATIONS & BUSINESS SUPPORT

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

REGIONAL GENERAL MANAGERS/ SENIOR ASSISTANT GENERAL MANAGERS



MR. D M S BANDARA
REGIONAL GENERAL MANAGER
Central Province
B.Com (Special) Degree
University of Sri Jayewardenepura



MR. D M T S KUMARA
REGIONAL GENERAL MANAGER
North Western Province
B.Sc. Business Administration (Special)
Degree - University of Sri Jayewardenepura
MA Economics - University of Kelaniya



MR. W M N DE SILVA
REGIONAL GENERAL MANAGER
Southern Province (till July 2020)
B.Sc. Business Administration (Special)
Degree - University of Sri Jayewardenepura



MR. A H M G ABEYRATHNA
REGIONAL GENERAL MANAGER
North Central Province
B.Com (Special) Degree -
University of Kelaniya
Diploma in Micro Finance -
Open University of Sri Lanka



MR. G S D DE SILVA
REGIONAL GENERAL MANAGER
Western Province
B.Sc. - Business Administration (Special)
Degree - University of Sri Jayewardenepura



MR. B H M S BASNAYAKA
REGIONAL GENERAL MANAGER
Uva Province (till April 2020)
B.Sc. Business Administration (Special)
Degree - University of Sri Jayewardenepura
Diploma in Management -
University of Uva



MRS. C S WERAGODA
REGIONAL GENERAL MANAGER
Sabaragamuwa Province
*B.Sc. Business Administration (Special)
Degree - University of Sri Jayewardenepura*



MR. R M R RANDENIYA
REGIONAL GENERAL MANAGER
Eastern Province
*BA Degree - University of Peradeniya
Certificate of Banking and Finance -
Institute of Bankers of Sri Lanka*



MR. W M D S WICKRAMASINGHE
REGIONAL GENERAL MANAGER
Uva Province (from April 2020)
*B.Com (Special) Degree -
University of Ruhuna
Postgraduate Diploma in Business
Management - University of Colombo
Certificate in Risk Management
in Banking - Sweden*



MR. K ARIYATHILAKA
ACTING REGIONAL GENERAL MANAGER
Southern Province (from July 2020)
*Higher National Diploma in HRD - National
Institute of Business Management*



MR. K P DAHANAYAKE
SENIOR ASSISTANT GENERAL
MANAGER
Human Resource Development
and Administration
*B.Com (Special) Degree -
University of Ruhuna
Postgraduate Diploma in Management -
University of Rajarata*

ASSISTANT GENERAL MANAGERS/ HEADS OF DIVISIONS



MR. B M U S BASNAYAKE
ASSISTANT GENERAL MANAGER
Operations (till August 2020)
Diploma in Agriculture -
College of Agriculture - Pelvehera



MR. D S P C HANDUNHEWA
ASSISTANT GENERAL MANAGER
Marketing, Research and Product Development
Diploma in Micro Finance -
Institute of Bankers of Sri Lanka
CBF - Institute of Bankers of Sri Lanka



MR. W V E G WARAKAGODA
ASSISTANT GENERAL MANAGER
Treasury
B.Sc. - Business Administration (Special)
Degree - University of Sri Jaywardenepura
Intermediate Examination - The Institute of
Chartered Accountants of Sri Lanka



MR. L B UPALI
ASSISTANT GENERAL MANAGER
Credit
B.Com (Special) Degree - University of Kelaniya
Intermediate Examination -
The Institute of Chartered Accountants
of Sri Lanka



MRS. B R D PUSHPAKUMARI
ASSISTANT GENERAL MANAGER
North Western Province
B.Com (Special) Degree - University of Kelaniya



MR. D P DHARMADASA
ASSISTANT GENERAL MANAGER
Central Province (till August 2020)
BA Degree - University of Peradeniya



MR. P S T RANATHUNGA
ASSISTANT GENERAL MANAGER
Central Province
BA (Special) Degree - University of Colombo



MR. K C D DHARMAPRIYA
ASSISTANT GENERAL MANAGER
North Central Province
BA Degree - University of Peradeniya
Senior Associate Member of Institute
of Bankers of Sri Lanka



MR. P M S WICKRAMARATNA
ASSISTANT GENERAL MANAGER
Recovery
B.Com (Special) Degree - University of Colombo
Intermediate Examination -
The Institute of Chartered Accountants
of Sri Lanka
CBF - Institute of Bankers of Sri Lanka
MAAT



MR. M M S ANANDA
ASSISTANT GENERAL MANAGER
Western Province
Associate Membership of Institute of Bankers
of Sri Lanka



MR. B G W A KUMARA
ASSISTANT GENERAL MANAGER
Eastern Province
B.Sc. Public Administration (Special) Degree -
University of Sri Jayewardenepura



MR. M A GNANARATHNE
ASSISTANT GENERAL MANAGER
Sabaragamuwa Province
B.Sc. Public Administration (Special) Degree -
University of Sri Jayewardenepura



MR. K B WIJERATHNA
ASSISTANT GENERAL MANAGER
Finance
B.Sc. Business Management (Special) Degree -
University of Rajarata
Intermediate Examination - The Institute of
Chartered Accountants of Sri Lanka
CBF - Institute of Bankers of Sri Lanka



MR. G M B C DE SILVA
ASSISTANT GENERAL MANAGER
Risk Management
B.Com Degree - University of
Sri Jayewardenepura
Associate Membership of the Institute of Bankers
of Sri Lanka
Postgraduate Diploma in Business Management
- University of Wayamba
MBA - University of Wayamba
Certificate Course in Micro Finance



MR. W M S WIJETHUNGA
ASSISTANT GENERAL MANAGER
Information Technology
B.Sc. in Applied Science Degree -
University of Sri Jayewardenepura
M.Sc. in IT - University of Colombo
MBA Specialized in IT - Sikkini Manipal University
PGEXDip in Bank Management -
Institute of Bankers of Sri Lanka



MR. W P M K DASANTHA
ASSISTANT GENERAL MANAGER
Building and Maintenance
B.Sc. (Eng.) - Hons. - University of Moratuwa
PGDip. In Technology - Open University
of Sri Lanka
Chartered Engineer - MIE (SL)



MRS. R M T RAJAPAKSHA
BOARD SECRETARY
Attorney at Law
LLB - University of Colombo



MRS. W V D P KUMUDINI
ASSISTANT GENERAL MANAGER
HR Services & Development
B.Sc. Public Administration (Special) Degree -
University of Sri Jayewardenepura

ASSISTANT GENERAL MANAGERS/HEADS OF DIVISIONS



MR. C L C MUTHUBANDA
ASSISTANT GENERAL MANAGER
Internal Audit
B.Sc. Business Administration (Special)
Degree - University of Sri Jayewardenepura
DBF - Institute of Bankers of Sri Lanka



MRS. W M I K ABEYRATHNE
ASSISTANT GENERAL MANAGER
Administration
B.Sc. (Physical Science) Degree -
University of Peradeniya



MR. P H WIJETHILAKA
ASSISTANT GENERAL MANAGER
Southern Province
B.Sc (Estate Mgt.& Valuation) Degree -
University of Sri Jayewardenepura
DBF - Institute of Bankers of Sri Lanka



MR. D M GUNASINGHE
ASSISTANT GENERAL MANAGER
Uva Province
B.Com Degree - University of Ruhuna



MRS. G B M T K WIJERATHNE
CHIEF MANAGER
Compliance
BA(Economics) Special - University of Peradeniya
CBF - Institute of Bankers of Sri Lanka



MRS. P N EKANAYAKE
CHIEF LEGAL OFFICER
Attorney at Law



MAJOR GENERAL J C P PAKSHAWEERA
CHIEF SECURITY OFFICER
RSP,VSV,USP (Rtd)

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FINANCIAL REVIEW

As a financial institution dedicated to Development Finance, Regional Development Bank (RDB) is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programs in the island, playing a vital role as a financier. RDB has now emerged as a unique Financial Institution for Regional Development in the island, serving the sectors of the economy, where most financial institutions are reluctant to actively participate in this sensitive and sophisticated arena. Our key asset is our customer base of over six million, spread throughout the country, including both North and East. Development of the country and its people are the main focus of the

Bank. So, the Bank is committed in empowering them and thereby developing the Nation through its island-wide branch network of 276 branches.

PROFITABILITY

Total income of the Bank has increased by 6%, compared to the previous year. In the year 2019, operating profit decreased to LKR 2,960 Mn. which is 18% less than the operating profit of LKR 3,606 Mn. recorded in 2018. Return on Assets (ROA) before tax has recorded as 1.6% that stood at 2.1% in 2018. Also, the Bank reached total assets of nearly LKR 200 Bn. as at 31/12/2019 which recorded 13% growth over the previous year.

SALIENT ACHIEVEMENTS OVER THE BUDGET

	Actual LKR '000	Budgeted LKR '000	Achievement %
Gross income	27,507,821	26,247,150	105
Operating profits	2,960,258	3,147,868	94
Profit after tax	498,595	417,098	120

RDB'S QUARTERLY FINANCIAL PERFORMANCE

RDB's quarterly financial performance has improved marginally during the year 2019.

	2019				31-Dec-18 LKR '000
	31-Dec LKR '000	30-Sep LKR '000	30-Jun LKR '000	31-Mar LKR '000	
Net operating income	10,916,887	7,662,298	4,983,868	2,240,309	11,442,195
Profit before tax	2,960,258	1,836,691	1,206,261	413,445	3,606,330
Profit/(Loss) after tax	498,595	133,576	78,982	(25,750)	1,073,586
Loans and receivables	144,693,551	140,805,499	139,606,532	136,388,470	137,769,683
Customer deposits	149,599,829	146,461,414	143,840,189	139,220,160	141,559,974
Total assets	199,978,929	190,329,661	187,881,565	175,763,050	176,937,319
Shareholders' fund	14,965,322	14,634,015	14,805,590	14,763,500	14,710,115

INCOME

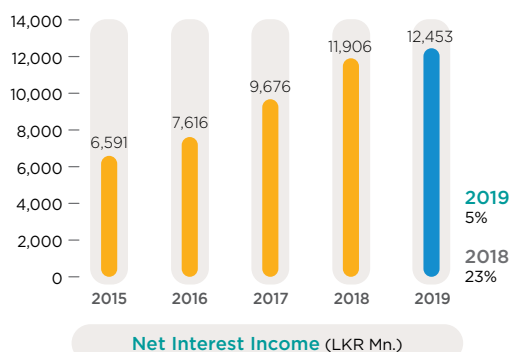
Total income of the Bank showed an year-on-year increase of 6% to LKR 27.5 Bn. from LKR 26 Bn. The major contributor to this was interest income which grew by 6%.

COMPOSITION OF TOTAL INCOME

	LKR '000
Interest income	26,357,071
Fee and commission income	1,134,422
Other operating income	16,328
Total income	27,507,821

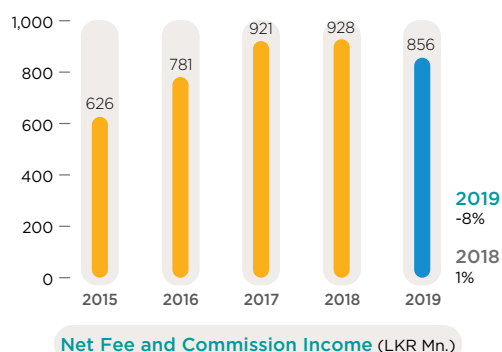
NET INTEREST INCOME (NII)

Net interest income grew by 5% in the financial year 2019, as it increased from LKR 11,906 Mn. to LKR 12,453 Mn.



NET FEE AND COMMISSION INCOME

A 8% decline was recorded during the year 2019 which recorded a drop to LKR 856 Mn. in the year 2019 against LKR 928 Mn. recorded in the year 2018.



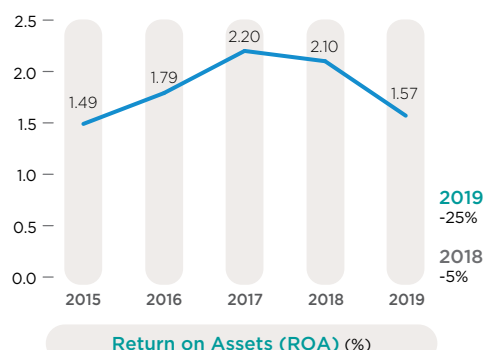
TAXATION

	2019 LKR '000	2018 LKR '000	Change %
VAT on Financial Services	1,012,949	1,158,678	-13
Nation Building Tax	123,626	154,490	-20
Income Tax	723,566	1,029,496	-30
Debt Repayment Levy	601,523	190,080	216
Total Tax Expense	2,461,663	2,532,744	-3

During the year 2019, the Bank has incurred Value Added Tax on financial services, Nation Building Tax and Debt Repayment Levy amounting to LKR 1,738 Mn. and Income Tax amounting to LKR 724 Mn. A total of LKR 2,462 Mn. has been incurred in the year as taxes.

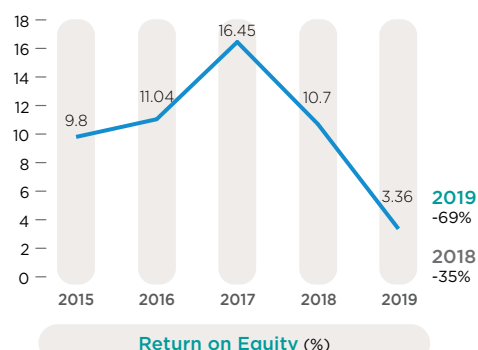
RETURN ON ASSETS (ROA)

The Bank recorded ROA (operating profits) of 1.6% for the year 2019 as against 2.1% recorded for the year 2018.



RETURN ON EQUITY (ROE)

Significant decrease in profit after tax and new share issue effected on 31/12/2018 have resulted in the decrease in ROE to 3.4% compared to the previous year.



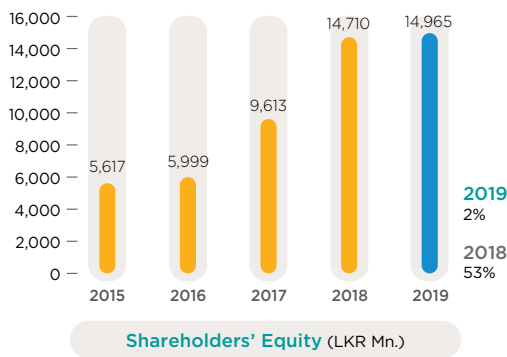
FINANCIAL REVIEW

TOTAL ASSETS

The Bank recorded a growth of 13% in total assets as at the end of the year 2019, over the corresponding year. Accordingly, the total assets base crossed the LKR 199 Bn. mark to reach almost LKR 200 Bn. Total Asset inflow of LKR 9.3 Bn. resulted from the merger with former Lankaputhra Development Bank largely contributed to reach the total assets of LKR 200 Bn.

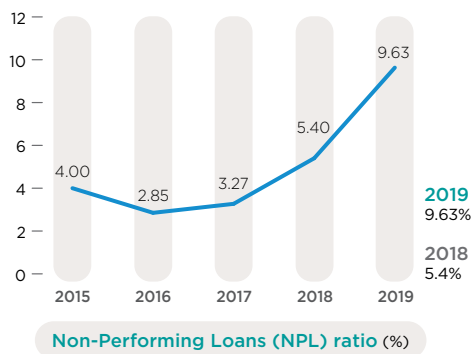
TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity of the Bank amounted to LKR 14,965 Mn. in the year 2019 against LKR 14,710 Mn. recorded in the year 2018.

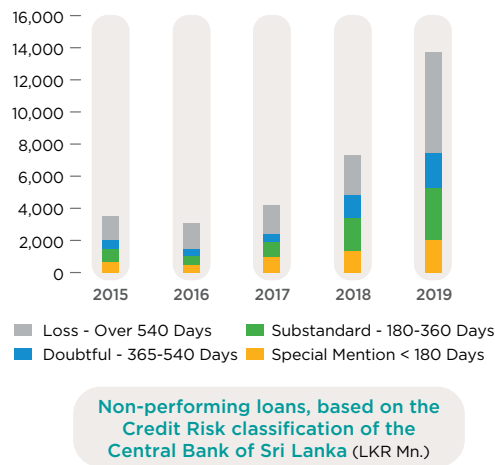


ASSETS QUALITY

Non-Performing Loan ratio (NPL) of the Bank increased up to 9.63% as at 31 December 2019 which was at 5.4% in the previous year end. Unfavorable external factors caused an unpredicted increase in the NPL during the year.



Given below is an analysis of the Bank's non-performing loans, based on the Credit Risk classification of the Central Bank of Sri Lanka.



LIQUIDITY

	2019	2018
Statutory Liquid Assets Ratio (SLAR)	32.38%	24.27%

The Bank has consistently maintained its liquidity levels well above the regulatory requirements. Significant inflow of some institutional deposits during the year 2019 and taking over of an investment portfolio from former Lankaputhra Development Bank have resulted in a higher SLAR compared to previous year.

CUSTOMER AND RELATIONSHIP REVIEW

CREDIT AND OPERATIONS

The Bank is expected to make a significant contribution towards the upliftment of the Nation as a Development Bank, which has a national presence. Credit is the most important function, with this instrument being used by the Bank in meeting this objective. Credit can be used to stimulate important segments such as Agriculture, Small Industries, Fisheries, Animal Husbandry, Housing and Service sectors of the economy, thereby enhancing the contributions made by these sectors towards National Income. One of the noteworthy features of the Bank is its strong presence in rural areas and semi-urban areas, which has been continuing from the inception of Regional Rural Development Banks since 1985.

The Bank therefore, has executed many strategies to meet the given objectives in all activities of the Bank, including lending operations. Terms of loan facilities were designed to suit the needy sectors by offering concessionary interest rates, conveniently crafted repayment plans with comfortable grace periods on soft security requirements. In addition, the Bank provided credit plus facilities, such as Entrepreneurship Development, Training, Advisory support on Management and Marketing. Credit plus services also helps to reduce the risk of lending and thereby reduce the dependency on securities for lending.

Currently, the Bank is operating an assortment of different loan schemes, designed for various needs of all customer categories. Funds for operation of most of the development loan programs are received through refinancing schemes implemented by multilateral organisations such as World Bank, Asian Development Bank, European Investment Bank and Ministry of Finance & Central Bank of Sri Lanka (CBSL). Accordingly, during the year under review, the Bank continued to act as a Participating Credit Institution (PCI) under 26 such refinancing programs of which, 16 are from the CBSL. The Bank strongly represented itself by participating in almost all Refinance schemes operated by the CBSL.

Further, the Bank has actively participated in 16 new loan schemes under the purview of Enterprise Sri Lanka Program during the year 2019.

During the year under review, the Bank was in a position to further expand the novel instrument for lending in the name of "Warehouse Receipt Financing". This was the first time in Sri Lanka, such an innovative instrument was used for financing by a bank to help farmer communities. This instrument will facilitate farmers to obtain temporary funds by pledging stocks during harvesting periods, without

selling their produce at low market prices. The Bank has already involved in the management of 6 warehousing projects with average capacity of 5,000 tons at Upuldeniya in the Anuradhapura District, Buttala in the Monaragala District, at Murunkan in the Mannar District and those newly-commenced in the year 2018 at Polonnaruwa, Embilipitiya and Kilinochchi on behalf of the Government, constructed with the support of the World Bank. The farmers are facilitated to store their harvests in these warehouses without selling until the price levels stabilised.

In the meantime, the farmers can get short-term loans on the warehouse receipts to meet urgent cash needs, until disposal of the harvest, once prices have come up to a reasonable level. Further, the Bank involved in conducting several awareness programs to farmers and related parties by qualified consultants deployed by Ministry of Finance in 2019.

The Bank commenced Finance Leasing operations in October 2019 and accommodated 43 facilities amounting to LKR 97 Mn. by the end of 2019.

The Bank continued to generate fee income by channeling insurance activities relating to the loans granted by the Bank during 2019.

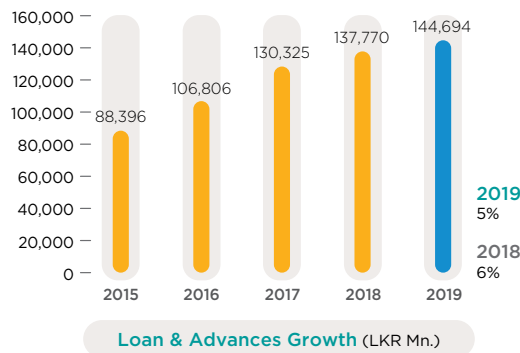
For this purpose, the Bank obtained the services of fifteen insurance companies to obtain insurance policies such as Agriculture insurance, Livestock insurance, Vehicle loan insurances, Housing loan insurances and further extended the service to Finance Leasing operations commenced 2019. The fee income so earned during 2019, amounted LKR 18 Mn. Based on this experience, the Bank has further strengthened the Bancassurance Unit in order to formalise and expand the insurance activities.

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

In view of the volatile macro-economic environment, the Bank did not involve in lending aggressively during the year 2019. However, the Bank played a major role during the year in lending to needy sectors of the economy with lending products with concessionary interest rates whilst being in line with the Government vision.

CUSTOMER AND RELATIONSHIP REVIEW

LOANS AND ADVANCES GROWTH

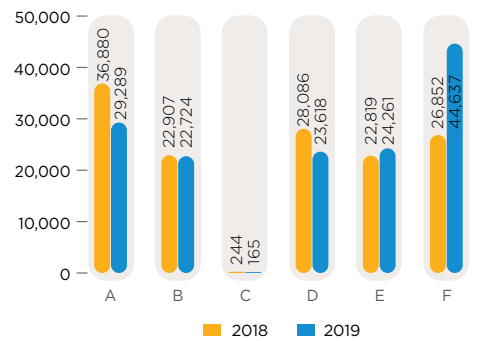
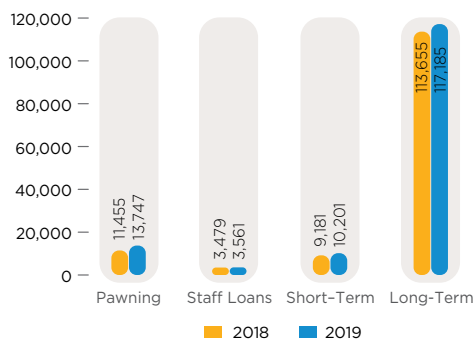


LOANS AND ADVANCES PORTFOLIO ANALYSIS - BY INDUSTRY

Category	2019 LKR Mn.	2018 LKR Mn.
Agriculture and fishing	29,289	36,880
Manufacturing	22,724	22,907
Transport	165	244
Construction/Housing	23,618	20,086
Traders	24,261	22,819
Consumption/Against Deposit/Staff/Tourism	44,637	26,852
Total	144,694	137,770

LOANS AND ADVANCES PORTFOLIO ANALYSIS - BY PRODUCT

Category	2019 LKR Mn.	2018 LKR Mn.
Pawning	13,747	11,455
Staff loans	3,561	3,479
Short-term	10,201	9,181
Long-term	117,185	113,655
Total	144,694	137,770



A Agriculture and fishing
B Manufacturing
C Transport
D Construction/housing
E Traders
F Consumptions/against deposit/staff/tourism

RECOVERIES

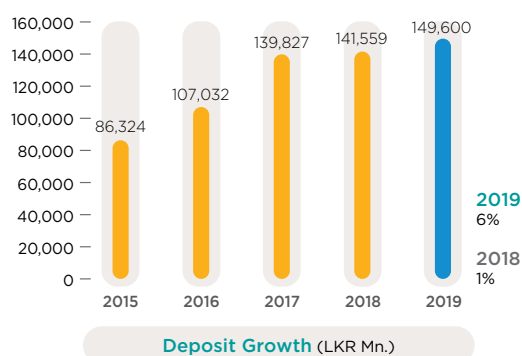
During 2019, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio which was around 5.4% of the total portfolio at the end of 2018. As a result of the special efforts made and managing the stress diligently that had arisen due to certain unfortunate situations in the external environment experienced by many of our customers, the Bank managed to maintain the NPL ratio at 9.63% as at 31 December 2019 whilst achieving marginal credit growth during the year.

Non-Performing Category 2019 LKR Mn. 2018 LKR Mn.

Specially mention	2,051	1,323
Substandard	3,185	2,080
Doubtful	2,228	1,431
Loss	6,247	2,429
Total non-performing	13,711	7,263
NPL Ratio (%)	9.63%	5.40%

DEPOSIT GROWTH

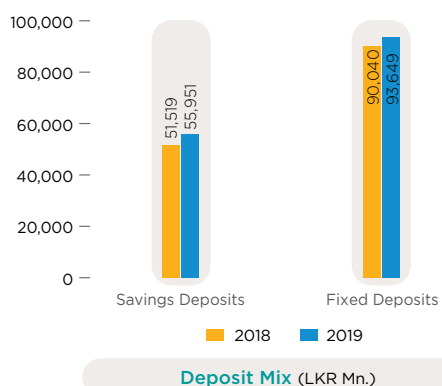
Deposit Base of the Bank almost increased to LKR 150 Bn. that represents a 6% growth over the previous year. The major contributor to this was savings deposits which grew by 9% whilst fixed deposits which grew by 4%.



DEPOSIT MIX (LKR MN.)

Type of Deposit 2019 LKR Mn. 2018 LKR Mn.

Savings Deposits	55,951	51,519
Fixed Deposits	93,649	90,040
Total	149,600	141,559



IT ACHIEVEMENTS IN THE YEAR 2019

Year 2019 was another year for the Bank in making system enhancement in order to improve customer services through technological implementations.

By the end of 2019, the Bank has issued more than 200,000 ATM Cards to its valuable Customers and Bank owned ATM Machines increased up to 50 Machines. During this year RDB has installed 5 CDM Units at selected locations to provide 24-hour Banking Service.

IT Department has successfully tested the EMV based JCB Chip Cards with the help of LankaClear and is planning to issue EMV based JCB Chip Cards for the ATM and Debit Cards in the near future.

IT Department managed to introduce Legal Case Management System (LCMS) Module to the Bank. This system helps relevant authorised staff members to monitor legal cases filed by the Bank and cases filed against the Bank.

In 2019, Leasing Product Module to the Core Banking System (CBS) was successfully introduced to carry out leasing business. This comprehensive Leasing Module has fully integrated Insurance and Recoveries functions for the Leasing Business.

Bank Staff had a difficulty to memorise different System Passwords, therefore IT Department introduced a 'Common System Portal' (CSP) to the Internal Staff and now they can access all the Systems by using a single sign-on.

In 2019, IT Department has successfully implemented the 'Utility Bill Collection Module' for Door-to-Door Banking service. This helps remote RDB customers and non-customers to pay their utility bills without coming to the branches.

Introduction of 'Bancassurance System' is another successful achievement of the IT Department in 2019. This module helps to track all the steps of the Loan Insurance Process.

During the year 2019, the IT Department managed to redesign the 'Issue Management System' to monitor and attend to the issues raised by the end users in a more efficient and user-friendly manner.

MARKETING REVIEW

PRODUCTS AND SERVICES



RDB KEKULU – MINOR SAVINGS ACCOUNT

RDB Kekulu account is exclusively designed for children under 14 years of age. This enables every child in our Motherland to save with RDB for a bright future. RDB offers a new savings till for every new account as an attraction. Further, there is a wide range of gift items such as exclusively designed umbrellas, school bags, dictionaries, gift vouchers and children's bicycles on offer for balances in the accounts at different levels. The Bank has also taken steps to inculcate the savings habit amongst the minor community providing highest returns on savings while also encouraging school children and minors to save. Accordingly, the RDB as a state bank, has launched this specialised Savings Account named "RDB Kekulu" to establish the future economic stability of Sri Lankan sons and daughters and is working on establishing this lesson of economy from the tender age and the savings habit, while working with children on various avenues such as: useful gifts, scholarships and other encouragements to get them used to thrift and savings. In parallel to that RDB has established schools savings centres to motivate children to practice saving habit and it has become very significant movement for children to grow their savings habit. In addition, the account is designed to achieve additional objectives i.e., assisting children's education as well as helping them to become good citizens. Gifts/prizes are offered for account holders who obtain best results at the year 5 scholarships and O/L examinations. Furthermore, educational seminars are arranged for the account holders who sit for the above examinations.



RDB 4TEEN PLUS

RDB 14+ Account, recently introduced by RDB Bank to make the teenager community bend towards savings habit can be named as a special savings tool. This account has been specially planned for teenagers of 14 years and above. Thrift and savings habit being practiced from young age by planning for the future will pave the way for the security of the future. Accordingly, RDB 14+ is operated with value additions that would attract teenagers. A higher interest rate with the additional bonus interest compared to the growth of the balance in the account is offered by RDB 14+ Account. As an ATM card is issued, the children above 14 have got an opportunity to withdraw money for their financial needs. Therefore, children will not need to hold much money in their hands. School children may use this account for their urgent monetary requirements as with every withdrawal by the ATM Card an SMS message is sent to guardian's mobile phone giving withdrawal details. As per the data of Census and Statistics, nearly 10% of Sri Lanka's total workforce is between 15-25 years of age. That category within the workforce may reap special benefits from this account. Through this account loan facilities may be obtained by the young community to fulfil their dreams of owning a house, vehicle, furniture, business, buying electronic equipment and accessories, for educational needs, and for foreign tours. All transaction activities will be intimated by SMS messages to your mobile phone to keep you updated.



RDB LIYA SAVIYA – WOMEN SAVING ACCOUNT

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



RDB LIYA SAVIYA PLUS – WOMEN INVESTMENT SAVING ACCOUNT

RDB Liya Saviya Plus Investment Account is a savings build-up scheme specially designed for women, with the objective of empowering them with a secured medium term investment opportunity and special credit schemes.

FEATURES OF RDB LIYA SAVIYA PLUS INVESTMENT ACCOUNT.

- Women above 18 years of age are eligible to open accounts.
- 5 year investment plan.
- Highest interest rate offered.
- Special gift scheme to motivate savings.



RDB NEWLIFE PENSION PLAN

RDB NewLife Pension Plan was introduced in 2018 as a special savings account where a higher interest can be obtained. It is dedicated as a pension plan. Interest rate will be revised bi-annually according to the 6 Month Average of AWDR (Average Weighted Deposits Rate) which is being published by CBSL monthly. The account pays a premium pension benefit when the account holder reaches age 55 or 60. It will be paid until the account holder's demise. Therefore, this account is very suitable for those who are not entitled to any pension payment such as self-employees, merchants, farmers, industrialists, non-pensionable workers etc. This account can be opened by 16 to 60 age groups and can be deposited according to the account holder's cash flow. Investments with regular premiums or a lump sum payment makes money grow well during account holder's work life. On retirement, a part or the whole of this savings can be used to create regular retirement income. Balance of the account will be utilised as the pension benefit monthly.



RDB VICTORY

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



RDB UTHTHAMA SENIOR CITIZEN'S SAVINGS ACCOUNT

Bank offers competitive interest rates in the market for this senior citizen segment. With an initial deposit of LKR 500/-, any individual above 55 years of age is eligible to open an adult's savings account. Account holders are given higher interest rates for their investment. Furthermore, they are given opportunity to pay their own utility bills without service charges. They can obtain medical check-ups free-of-charge and pensioners are entitled to obtain RDB Dhetusavi credit facilities.

MARKETING REVIEW

Products and Services



RDB INVESTMENT ACCOUNT

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



RDB FIXED DEPOSITS

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



RDB JAYA NIDHANA DEPOSITS CERTIFICATE

This is a product of RDB which attracts customers of all economic levels. This is a certificate which gives the face values amounting to LKR 5,000/-, LKR 10,000/-, LKR 25,000/-, LKR 100,000/-, LKR 500,000/- LKR 1,000,000/-. Mainly this product aims to enhance the fixed deposit portfolio of the Bank to provides a helping hand to the development of especially the small scale entrepreneurs in the country. Special feature of this product is that the Bank gives the applicable interest at the time of its maturity.



RDB DORIN DORA – CONVENIENT DOOR STEP BANKING SERVICE

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



RDB LEASING

"RDB Leasing" is for Micro Enterprise, Small and Medium Enterprises, Professionals, high net worth individuals, Government and private sector employees to purchase registered and unregistered vehicles which are essential for their businesses and professional activities. Being a State-owned largest Development Bank in the country, RDB will enhance the SME sector by facilitating range of commercial vehicles such as Lorries, Freezer Trucks, Trucks, Cab, Buses, vans as well as off road vehicles and Land vehicles.



LANKA MONEY TRANSFER (LMT)

Money transfers through the Lanka Money Transfer (LMT) is an easy and speedy way to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas. All remittances are directly credited to beneficiaries' savings accounts on real time.



WESTERN UNION

Money transfers through the Western Union (WU) is an easy and speedy way to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas.



ATMS AND CDMs

With the exception of current accounts, the Bank offers a vast range of products and services to the customers, including savings accounts, children's savings accounts, women's accounts and senior citizen's accounts, pawning facilities as well as an array of long-term loan facilities. Despite the range of services, until recently, the Bank has not offered electronic card facilities to its customers. However with the revolutionary introduction of LankaPay common ATM switch by LankaClear the Bank is now ready to offer ATM cards to our customers. Therefore, since 2015, RDB has taken strategic actions to enable the customers to withdraw money from their accounts using the RDB ATM card through any ATMs that carries the LankaPay logo. As the majority of customers at RDB are made up of rural and semi-urban entrepreneurs and they are engaged in professions such as agriculture, fisheries, and animal husbandry, this ATM card is expected to offer greater convenience as well as security. At present, the Bank has installed more than 50 RDB ATMs island-wide.

In addition to this, RDB has introduced Cash Deposits Machine network in 2018. These are introduced in many busy towns for convenience of the clientele. Furthermore, there are two automated banking centres in Padavi Sripura and Welioya where proper banking services are not found.

MARKETING REVIEW

MOBILE BANKING UNIT



RDB has introduced Mobile Banking Unit to provide basic over-the-counter banking and ATM facilities to customers. It has an in-built banking counter that facilitates cash deposits, cash withdrawals, opening of bank accounts, utility bill and remittance payments etc. The unit also performs as a disaster recovery mobile unit.

SRI LANKA INTERBANK PAYMENT SYSTEM (SLIPS)

RDB SLIPS is an interbank electronic funds transfer system that provides the opportunity to transfer funds in the local clearing network in Sri Lanka in a safe and secure manner. SLIPS can be used to transfer funds to any participating bank in Sri Lanka.

COMMON ELECTRONIC FUND TRANSFER SWITCH (CEFTS)

Common Electronic Fund Transfer Switch (CEFTS) is a real-time fund transfer system allowing customers to perform domestic interbank fund transfers real-time at their convenience.

UTILITY BILL PAYMENT



RDB facilitates to pay utility bills under one roof. Accordingly, customers can easily pay their electricity bills, water bills, telecommunication bills, insurance payments and other bill payments through RDB branches and our Dorin Dora / Grameeya Naika (Mobile Services) as well.

WAREHOUSE FACILITIES



Government of Sri Lanka has launched a Negotiable Warehouse Receipts system with World Bank assistance to help farmers gain access to loans from banks and avoids difficulties in the sale of agricultural commodities. Negotiable Warehouse Receipts allow transfer of ownership of any agriculture commodity stored in a warehouse without having to deliver the physical commodity.

These receipts can be used as collateral for bank loans. Warehouse Receipts financing facilitates the dual purpose of providing a value chain service to farmers through warehousing, and access to credit simultaneously against stored produce.

Six warehouses are being managed by Regional Development Bank (RDB) in Galenbindunuwewa, Murunkan, Buttala, Kilinochchi, Medawachchiya, Embilipitiya where farmers can store their harvest at a very minimal charge depending on the type of grain. This will solve storage problems of agriculture products of farmers in the area.

BANCASSURANCE

While banking with us customers can choose customised insurance products or insurance benefits from a wide range of insurance companies through our RDB Bancassurance Unit.

SOCIETY AND ENVIRONMENTAL REVIEW

CORPORATE SOCIAL RESPONSIBILITY – CSR

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

RDB benefits from being a fully State-owned entity and is committed to upholding its social obligations. Accordingly, the Bank has not acted solely on profit-making motives during the journey up to now from its inception. Instead, the Bank in its capacity has played its role in any way possible towards the upliftment of social welfare.

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

A significant aspect of the Bank's social welfare programs is the barefoot banking concept where banking services are provided to uplift Micro, Small and Medium scale women entrepreneurs by offering concessionary interest rates.

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

NEW SANITARY FACILITIES FOR LOOLECODORE TAMIL VIDYALAYA, RIKILLAGASKADA



Bank proposed to uplift sanitary facilities in remote area schools of the island as part of its Corporate Social Responsibility (CSR) programme.

Accordingly, the Bank handed over the New Toilet Unit to school children of Loolecodore Tamil Vidyalaya on 24 January 2019.

CELEBRATION OF SINHALA AND TAMIL NEW YEAR WITH THE DISTRIBUTION OF PLANTS

As part of the celebrations and activities of Sinhala and Tamil New Year 2019, plants were distributed among customers who visited for the Avurudu Ganudenu on 15 April 2019. This event was held at all RDB branches island-wide.



CORPORATE SOCIAL RESPONSIBILITY – CSR

AWARENESS PROGRAMME ON GRAIN WAREHOUSES

RDB launched awareness programs on grain warehouses around the areas of Murukkan and Embilipitiya to uplift the knowledge of famers regarding facilities and benefits of the warehouses operated by RDB. Such as facility to store grains in warehouses and helps to sell harvest at a competitive prices and financial assistance under the Warehouse Receipt Financing Facility.



CUSTOMER AWARENESS PROGRAMMES

RDB invested its resources for the rural and semi urban masses to become responsible citizens through many special briefing and training programs conducted regularly. Such efforts allowed them to plan, organise and implement their day to day lives in a better manner and to explore ways and means to upgrade their lifestyles through material and time saving method rather than only focusing on an approach of savings.



EMPLOYEE REVIEW

OVERVIEW

RDB is committed to provide opportunities for employees to grow their fullest potentials and to improve their quality of life while creating a healthy and productive work environment with an appreciative team culture. Employee will be benefitted through knowledge sharing culture, job security and enjoying opportunities for career development.

Several initiatives were taken previously continued to create competency based HRD practices by introducing proper policies, practices and processes including digital transformation practices to deliver efficient services to its employees. Automating HR processes have been

benefitted to streamlining employee engagement. HR related data and analytics were used continuously to assess employee strength and their contribution to the business performance through Human Capital Financial Statement.

FINANCIAL KPI IN HR

The financial KPI with regard to the Human Capital ROI were continued to improve in 2019 as the employees of the bank contributed to increase business performance compared with previous years while maintaining minimum level of total cost of workforce.

FINANCIAL KPI WITH REGARD TO THE WORKFORCE PRODUCTIVITY IMPACT FOR 2016 – 2019

	2016	2017	2018	2019
Total operating profit (LKR Mn.)	2,130	3,307	3,606	2,960
Total income (LKR Mn.)	15,744	22,016	26,071	27,508
Loan portfolio (LKR Mn.)	106,806	130,325	137,770	144,694
Deposit portfolio (LKR Mn.)	107,032	139,827	141,560	149,600
Total headcount (FTE)	2,342	2,395	2,345	2,735
Total cost of workforce (LKR Mn.)	4,699	5,346	6,225	6,261
Human capital ROI ratio	1.47	1.62	1.33	1.08
Productivity per FTE (LKR)	950,514	1,380,791	900,357	1,082,267
Return on human capital investment	45.3%	61.9%	52%	47.3%

(FTE – Full Time Employee)

MANPOWER STRENGTH

The manpower of the bank consisted with employees who have been deployed for the cadre positions on permanent and contract basis. Apart from that Door to Door Field Assistants (those who were converted to fixed term contract) and Rural Leaders (linked with micro finance system) would provide manpower service to the bank. Also bank provides opportunities for trainees who require to undergo training (6-12 months) as requested by Universities, Technical Colleges, recognised professional Institutions and school leavers those who are eligible for the university entrance. These categories would provide valuable inputs to the bank performance.

The summary of the manpower strength compared with previous year are as follows.

Manpower Type	Headcount	
	2018	2019
Permanent/Contract employees	2345	2735
Door to door field assistants	399	449
Rural leaders	340	200
Total	3084	3384

EMPLOYEE REVIEW

328 Trainee Development Assistants were recruited as entry level positions of the bank. In addition 152 staff members were absorbed from Lankaputhra Development Bank (LDB) consequence to the acquisition. There was a significant increase in staff acquisition during the year by 17%. Headcount distribution by management level is given below.

Management Level	Headcount Distribution		
	2018	2019	%
Corporate management	8	6	-25
Senior management	29	34	17
Executive management	153	133	-13
Executives	1030	1040	1
Clerical and Allied	981	1366	28
Other grades	144	156	8
Total	2345	2735	17

Bank provide equal employment opportunities for both male and female. The gender profile was continued to maintain in 2019 even after new recruitment/ acquisition were made.

Gender	2018		2019	
	Headcount	%	Headcount	%
Male	1314	56.03	1546	56.53
Female	1031	43.97	1189	43.47
Total	2345	100.00	2735	100.00

The employee population is quite mature has an average of 15.8 years of past service and their average age is 41.2 years. The age and experience profiles of the bank are given below.

AGE PROFILE

Age Category	Headcount	%
Below 31 years	608	22.23
31 – 40 years	830	30.35
41 – 50 years	562	20.54
51 – 55 years	487	17.81
Above 55 years	248	9.07
Total	2735	100.00

EXPERIENCE PROFILE

Experience Category	Headcount	%
More than 30 years	308	11.26
20 – 29 years	836	30.57
10 – 19 years	576	21.06
5 – 9 years	554	20.26
Less than 5 years	461	16.85
Total	2735	100.00

CAREER ADVANCEMENT

Bank provided continuous ongoing training to change attitude of staff and impart knowledge and hands on learning experience towards banking operations and better customer service. During the year 87 programmes were conducted with 2382 participants.

Ten days SME training programmes were conducted in India with the resource support of Jawaharlal Nehru Institute of Banking and Finance, India in 02 batches with 30 participants who represented the core staff who involved in SME project financing with the purpose of providing exposure covering every aspect of SME Project Financing.

Nine officers were given opportunities for foreign training to impart knowledge in their functional areas. Branch Staff who won Best Branch award in 2017 were given foreign tour and the Branch Manager of the Best Branch in 2017 was given foreign training. Total investment for both local and foreign training during the year was LKR 24.2 Mn.

GRIEVANCE REDRESSAL

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

EMPLOYEE BENEFITS

Salaries of the employees of RDB were further increased to equal with the salary scales of other state banks. Action re-initiated to discuss with unions to suggest pension benefit scheme to enable active employees of RDB to participate in which several actuarial valuation were assessed to derive financially affordable pension benefit scheme.

ABSORBING LANKAPUTHRA DEVELOPMENT BANK (LDB) STAFF, CONSEQUENCE TO THE ACQUISITION

Bank absorbed 152 staff from LDB to the positions of RDB based on the recommendation of the HR due diligence report conducted by Chartered Institute of Personnel Management (CIPM Sri Lanka) and placed them after an induction and integration program conducted by the bank. VRS was offered to 10 employees those who do not wish to join RDB.

HR BOARD SUB – COMMITTEES

In terms of the Corporate Governance practices and the Directions of the CBSL two separate sub committees were formed as Board Human Resources and Remuneration Committee (BHRRC) and Nomination Committee (BNC). These two committees were headed by the Chairman of the bank. Four (04) Nominations Committee meetings and Ten (10) Board Human Resources and Remuneration Committee meetings were held during the year 2019.

In addition, arrangements were made to establish Human Resource Policy committee (HRPC) in order to strengthen the corporate governance practices of the bank. The purpose of this committee is to make recommendation in aspect of Human resource management practices and profile to the BHRRC and BNC. This committee is headed by the General Manager/CEO as the committee is operated as an executive committee. During the year, four committee meetings were held and submitted the minutes to the BHRRC and BNC accordingly.

SPECIAL EVENTS

BRANCH RELOCATION

MONERAGALA BRANCH



Moneragala Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the GM/CEO Mr. T A Ariyapala on 21 January 2019.

KALUWELLA BRANCH



Kaluwella Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 27 May 2019.

KURUWITA BRANCH



Kuruwita Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 18 February 2019.

DANTURE BRANCH



Danture Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 10 June 2019.

HEDENIYA BRANCH



Hedeniya Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 10 June 2019.

BATTICALOA 2ND BRANCH



Batticaloa 2nd Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 19 August 2019.

KALMUNAI BRANCH



Kalmunai Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 19 August 2019.

POTHUPITIYA BRANCH



Pothupitiya Branch moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 16 September 2019.

SPECIAL EVENTS

KEKANADURA BRANCH



Kekanadura Branch moves to more convenient location and ceremonially opened by Regional General Manager Southern Province Mr. Nimal de Silva on 14 October 2019.

EASTERN PROVINCE OFFICE AND BATTICALOA DISTRICT OFFICE



Eastern Province Office and Batticaloa District Office moves to more convenient location and ceremonially opened by Chairman Mr. Sujith Prasanna Kariyawasam along with the Acting GM/CEO Mr. T Kuhan on 19 August 2019.

ALMS GIVING AT JAYA SRI MAHA BODHIYA

Annual alms giving organised by RDB was held in Anuradhapura in June 2019 with the participation of the management and staff.



SCHOOL SAVING CENTRES

The School Savings Centre at Springfield International School, Kandy has been re-launched on 31 January 2019 to improve saving habits among school children.



The School Savings Centre at Siddhartha Vidyalaya, Wattegama has been opened by the Wattegama Branch with the collaboration of LEO club of University of Colombo under the project of "IthuruMithuru".



THAIPONGAL CELEBRATION

Special celebration held at RDB Head Office to commemorate Thai Pongal on 16 January 2019.



COMMEMORATION OF INTERNATIONAL WOMEN'S DAY

All branches of RDB organised special programs to commemorate International Women's Day to improve saving habits among women around the country.



AVURUDU WASI SPECIAL STREET CAMPAIGN IN KANDY CITY

Kandy Branch of RDB conducted Avurudu Wasi Special Street Awareness Campaign in Kandy City on 3 April 2019 to target prospective customers and to enhance deposit base of the bank.



SPECIAL EVENTS



SINHALA AND TAMIL NEW YEAR CELEBRATION

All branches of RDB conducted special programs to celebrate Sinhala and Hindu New Year on 16 April 2019.



INSTALLATION OF ATM

RDB installed 25 ATMs island-wide in 2019 to expand its ATM network to provide more convenient service.



NEW RECRUITMENTS

RDB added 328 employees to its workforce in 2019 to enhance productivity and get inspired with new ideas.



MOBILE BANKING SERVICE

Mobile banking service at Smart Shirts, Hunnasgiriya is being conducted monthly from 4 September 2019 by Udadumbara Branch to facilitate cash transactions for employees who work for said company.



TRAINING PROGRAMS FOR RDB STAFF

RDB conducted several training sessions for staff to improve employee performance and to expand the knowledge base of all employees.



RDB ANNIVERSARY

All branches of RDB commemorated its 34th Anniversary by carrying out special programs with their customers.



WORLD CHILDREN'S DAY CELEBRATION

All branches of RDB celebrated World Children's day on 1 October to inculcate savings habits among children and their parents.



SPECIAL EVENTS

NEW PRODUCT DEVELOPMENTS IN 2019

RDB LEASING LAUNCH

“RDB Leasing” with competitive lowest interest rate has been added to RDB’s product portfolio on 18 October 2019 to facilitate Micro, Small and Medium Entrepreneurs, Professionals, Individuals with affordable income and Government and Private sector Employees.



RDB LIYA SAVIYA PLUS LAUNCH

WOMEN INVESTMENT SAVING ACCOUNT

RDB Liya saviya plus Investment Account is specially designed for RDB women entrepreneurs to inculcate their savings habits. In addition to competitive interest rate offered, special gifts are being offered for this Medium Term Investment Account. This product has been launched on 1 March 2019 to commemorate World Women’s Day.



RISK MANAGEMENT

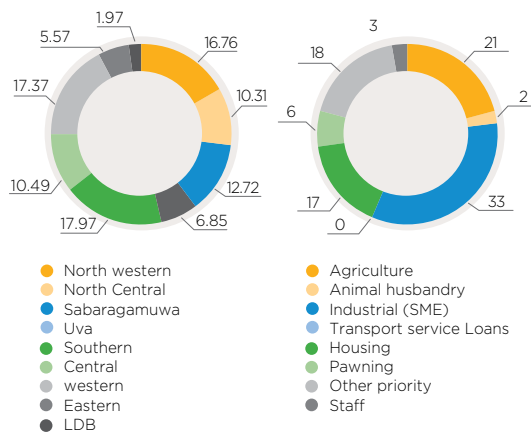
EXECUTIVE SUMMARY

Bank implements comprehensive Risk Management framework to cover entire bank operation to manage and mitigate the risk which arise during its operational process.

RISK MANAGEMENT MODELS AND CONTROLS

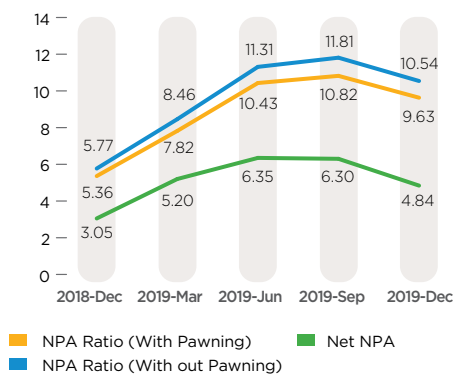
- Application of Three Lines of Defence to control and manage the entire organisation risk.
- Established and expanded the Risk Management unit with capable staff.
- Appropriate information management and technological infrastructure.
- Well established Risk Management committees.
- Establish Information security unit.
- Establish an integrated Risk Management culture through awareness and training.

CONSOLIDATION OF IMPROVEMENT IN CREDIT RISK PROFILE

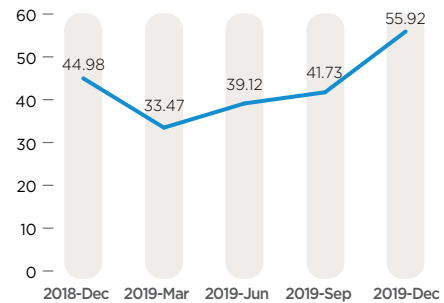


Geographical concentration (%)

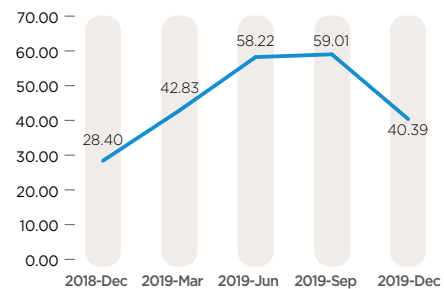
Sector-wise concentration (%)



NPA ratio (%)



Provision cover ratio (%)

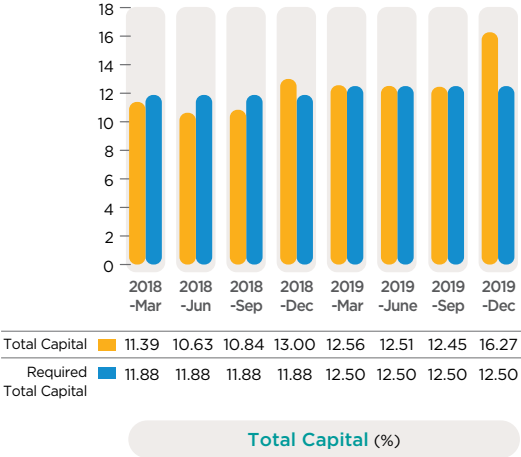
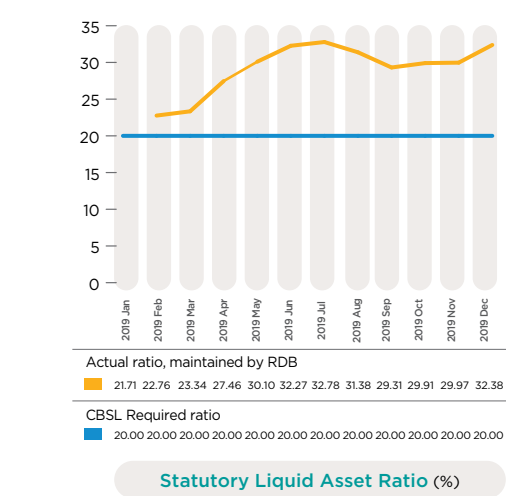


Open Loan Exposure (%)

- 37% of the total portfolio is consented on industry sector followed by 20% on agriculture and fisheries. Further the HHI index for the total portfolio reveals that 0.111 and 0.041 respectively and total HHI for the credit portfolio is 0.205 hence there is a less concentration on sectors.
- 5% improvement of the total credit portfolio of the bank when compare with the last year (2018).
- NPL ratio rise to 9.63%, increase of 4.27% compared to year-end 2018 (5.36%).
- The Provision coverage ratio remains at approximately 55.92% hence the bank has to cushion 40.39% of its NPA by using shareholders fund in an unforeseen situation.
- Provisions increase by LKR 4.2 Bn. in December which is 119% increase compared to the same period of the previous year (2018).

RISK MANAGEMENT

LIQUIDITY RISK OF THE BANK



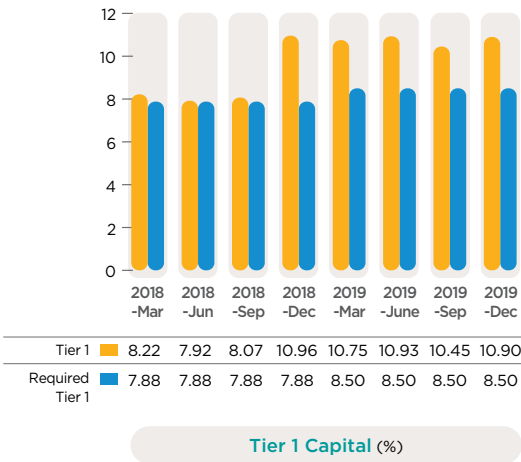
- The bank has complied with new Basell 111 capital requirement.

LIQUIDITY COVERAGE RATIO

Period	2019-Jan	2019-Feb	2019-Mar	2019-Apr	2019-May	2019-Jun	2019-Jul	2019-Aug	2019-Sep	2019-Oct	2019-Nov	2019-Dec
Actual value (%)	172.22	225.94	114.32	145.20	158.41	144.98	183.63	144.70	170.09	205.99	187.26	205.99

- The statutory requirement for the Statutory Liquid Asset Ratio (SLAR) is 20%. The Bank has complied with the regulatory requirement and maintained 32.38% SLAR.
- The statutory requirement for the Liquidity Coverage Ratio (LCR) 1 Jan 2019 was 100.The Bank has complied with the regulatory requirement and maintained at 205.99.

CAPITAL RISK



NON-FINANCIAL RISKS

OPERATIONAL RISK

- 12 operational subcommittee held during the year 2019 and minutes reported to the IRMC for their review.
- Operational Risk Management policy was reviewed for the year 2019 and was recommended by the IRMC and approved by the Board of Directors for the smooth functioning of the Bank.

COMPLIANCE RISK

The Bank’s compliance function falls under the purview of the IRMC headed by SAGM Compliance. In order to achieve this objective he monitors and assesses the compliance requirements and submits quarterly reports on the compliance status of the Bank to the IRMC for review. There is a comprehensive Board approved compliance policy which is reviewed annually. The Compliance Officer also overlooks the timely submission of necessary statutory reports of the Bank to the regulator.

Every business face uncertainties or risk in its business environment. As a financial entity, Risk is inherent in its operational process of the Bank. Hence the Banks always tolerates in between risk and return. In terms of going concern, the Banks should manage and mitigate its risk factors, if not this could result for massive operational and financial losses. Effective Risk Management process enables banks to take better decision to manage and mitigate its unexpected risk and to achieve sustainable growth by improving its strategic and operational objectives.

RISK MANAGEMENT OVERVIEW

The risks that the Bank is exposed can be classified into internal risks which are within the control of the Bank and external risks which are beyond the control of the Bank, both of which are managed through a robust Risk Management Framework.

Changes in the overall risk profile of the Bank may occur due to changes in internal and external factors. The Bank is responding to these emerging risks and uncertainties with strategic responses.

Internal factors may include lapses in implementing the risk management framework, assumptions about macro-economic variables turning out to be different, execution gaps in internal processes etc., while external factors may include adverse movements in the overall economic or market conditions, political instability, changes in fiscal and monetary policies of the Government. These factors have made the operating environment very complex and dynamic hence Risk Management has become very challenging.

EMERGING RISKS AND UNCERTAINTIES

In addition to the risks referred to above, banks are now engaging with certain emerging risks and uncertainties too, arising from the unprecedented space of developments in information and communication technology, digitisation, demographic changes. These have made the operating environment even more volatile and unpredictable to financial services institutions.

The Regional Development Bank has identified these emerging risks and uncertainties. Being aware of their potentially disruptive nature, the Bank is following up on them with a high degree of enthusiasm.

This allows the Bank to better understand the customer and deliver on their expectations while achieving execution excellence in internal processes and thereby reducing costs of operations. The Bank firmly believes that these strategies will help it to differentiate its offering and convert them into opportunities while effectively managing the risk for future growth.

RISK MANAGEMENT FRAMEWORK

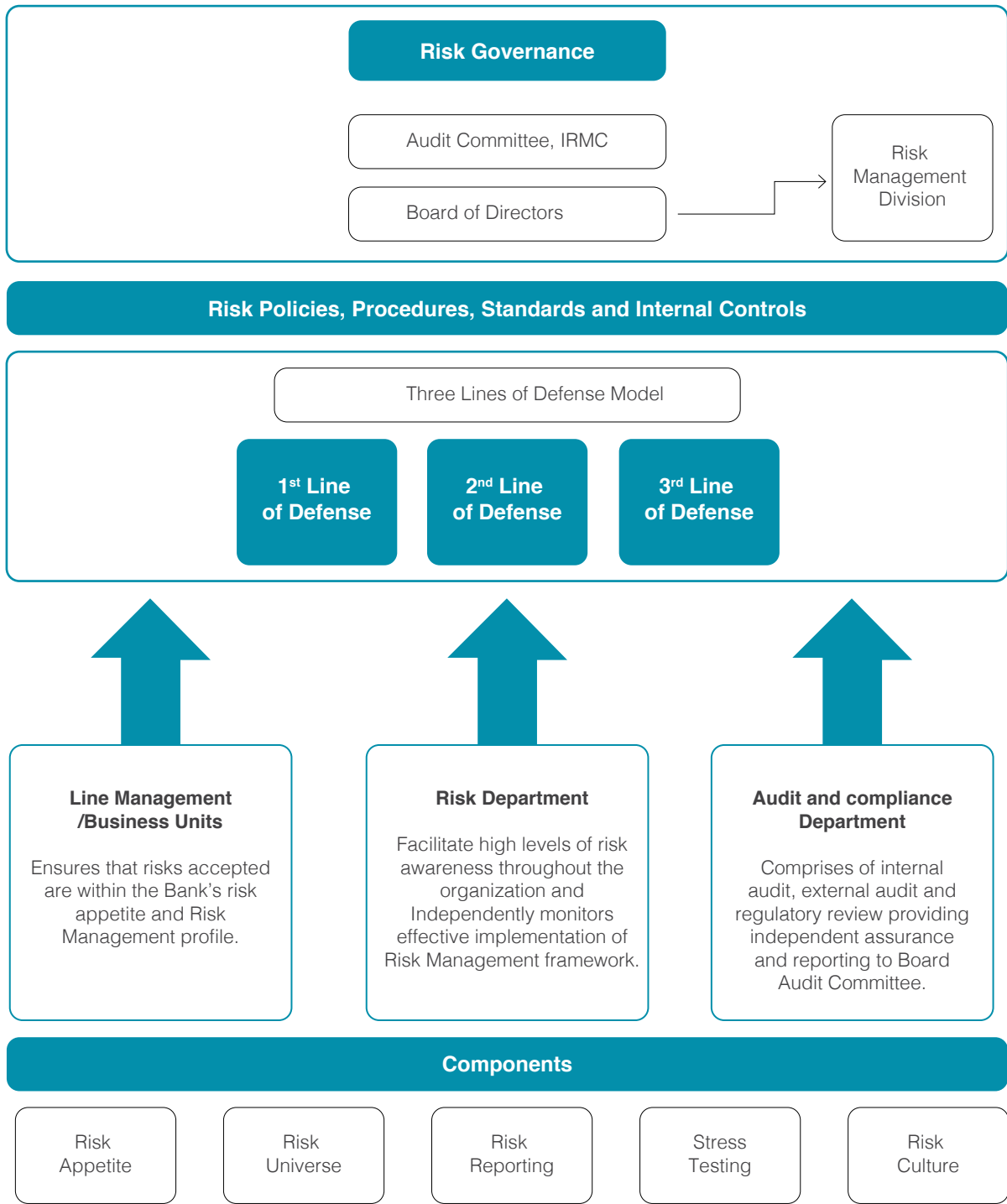
The Bank has developed an effective Risk Management Framework (RMF) based on the Three Lines of Defense model. RMF considered possible risks and uncertainties the Bank is exposed to and is underpinned by rigorous organisational structures, systems, processes, procedures, and practices. The Three Lines of Defense model, which is the international standard, enables unique perspectives and specific skills for managing risk. RMF guides the Bank in its day-to-day operations.

The Bank focus on timely identification, analysis, measurement, management and report the risk involve in the business process. The Risk Management process of the bank also ensures the efficient, adequacy of the capital, 'key performance' and key risk factors of the Bank.

Well established Risk Management strategy is predefined by the Bank Risk Management team in the risk appetite statement and established comprehensive Risk Management policies, procedures and framework which are approved by the Board of Directors to cover overall risk of the Bank. Moreover, Risk Management process of RDB focus on close monitoring of the internal controls, stress testing on risk arrears and establish and apply Three Lines of Defence.

RISK MANAGEMENT

Responsibility of the bank's Risk Management lies with the all individuals who are engaged in the bank's operations.



RISK GOVERNANCE

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

The Board Integrated Risk Management Committee (BIRMC) is committee chaired by the Executive Director and supported to make decisions on Bank Risk Management framework. The committee given recommendation on bank overall risk profile and recommended the risk management policies, procedures, and Internal Capital Adequacy Assessment Process (ICAAP) of the Bank. Policies procedures and the

ICAAP are formulated, reviewed, and presented to the IRMC by the CRO and his division in periodic manner.

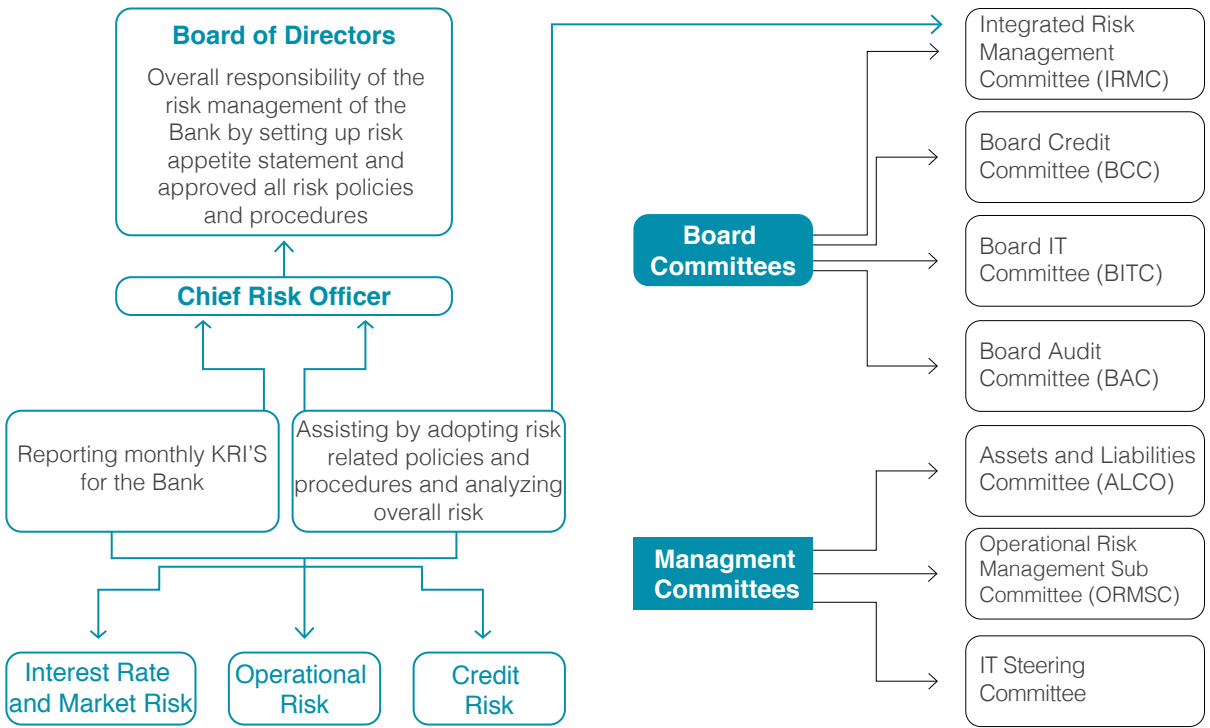
The Board Audit committee (BAC) examines the internal control and regulatory compliance of the Bank on behalf of the Board of Directors of RDB. The committee also accesses the performance, accuracy and independence of the internal audit of the Bank.

The Management Committee (MC) is the committee which is headed by the GM/CEO of the Bank and representing all executive level staff of the Bank. The committee performs periodically and whenever necessary. The committee reviews the reports from all operational level of the bank to mitigate the risk and uncertainty periodically.

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

Risk management Department (RMD) which is headed by the CRO, has three separate functions of risk management namely Credit, Operation, Market and Interest rate Risk.

RISK GOVERNANCE STRUCTURE



RISK MANAGEMENT

POLICY FRAMEWORK

Effectiveness of the Risk Management basically depends on the Risk Management policies, procedures and framework. These are the strategic guideline for the effective Risk Management of RDB. RMD has established comprehensive Risk Management policies, procedures and framework which are approved by the Board of Directors with the recommendation of IRMC. All these policies, procedures and framework are reviewed annually by the RMD.

RISK MANAGEMENT POLICIES AND PROCEDURES AT RDB

Policy	Year of Establish	Coverage
Credit risk management policy	2012	Sectorial limits and methods of risk management and mitigation techniques of credit.
Operational risk management policy	2012	Techniques for identify mitigation and management of Operational Risk and details on operational sub committee.
Liquidity risk management policy	2012	Techniques of management of liquid assets and liquid liabilities.
Interest rate risk management policy	2012	Techniques for identify mitigation and management of Interest Rate Risk.
Stress testing policy	2012	Stress testing framework for capital adequacy, liquidity.
Integrated risk management framework	2013	Risk management framework for RDB.
Market risk management policy	2015	Techniques for identify mitigation and management of Market Risk.
Loan review policy	2016	Loan review mechanism.
Business continuity plan	2016	Guideline for business continuity plan for disaster.
Acceptable usage policy	2015	Guideline for Information usage.
Information security policy	2015	Guideline for IT security.
Risk appetite statement	2019	Guideline for tolerance limit.

CREDIT RISK MANAGEMENT AT RDB

CREDIT RISK EXPOSURE

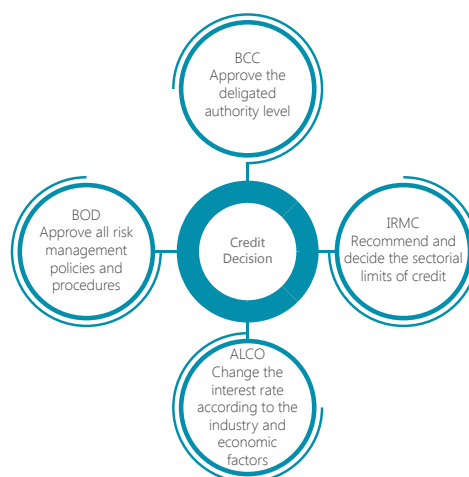
The total credit exposure of RDB is 72.35% of its total assets. Extending credit is the major business line of the Bank and as a result, Credit Risk is the most significant type of risk that is being managed.

Our lending portfolio increased by LKR 6.92 Bn. during the year, which is a 5.03% increase, compared to last year. As of the end of year 2019, bank's credit portfolio consist of 626 loan facilities over 5 Mn. category and top 10 borrowers contribute 0.43% to the total advance portfolio and further analysis indicates that the top three clients are contributing 0.13%, 0.11%, and 0.03% respectively to the portfolio. RDB loan portfolio consist with Agriculture loan, Animal husbandry loan, Industrial loan (SME), Trading and services loan, Housing loan, Pawning, Consumption loan and Loans against Deposits.

RDB being a development bank, credit is the major business line like any other bank which tends to increase the overall risk exposure of the Bank. Therefore, the Bank has placed a considerable weightage on Credit Risk Management process.

CREDIT RISK GOVERNANCE

The Credit Risk Management policy of RDB is the main guideline for Credit Risk Management which is approved by the Board and reviewed annually which contains all policies, procedures and methods to identify, manage and mitigate the Credit Risk. Board level committees and Management level committees are also engage with Credit Risk governance of RDB. Credit Administration unit which is attached to RMD is responsible to identify and monitor the security risk, risk of NPL and Credit monitoring. Credit Risk Management team under RMD is responsible to submit, review on credit portfolio of the RDB to Board on periodically.



CREDIT RISK MITIGATION, MONITORING AND REPORTING

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

DELEGATED APPROVING AUTHORITY

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

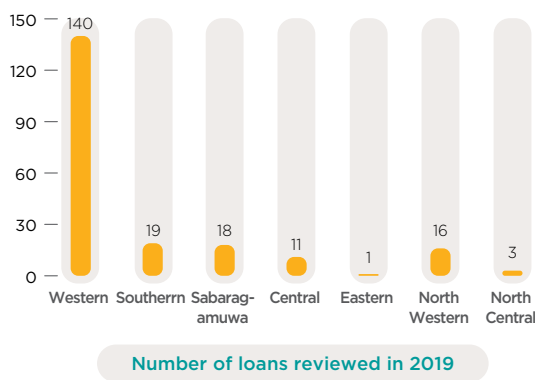
RISK MANAGEMENT

CREDIT ADMINISTRATION UNIT

In view of increasing administration process of the credit portfolio, in March 2016 the Bank established the Credit Administration Unit which is headed by an Assistant General Manager under the Risk Management Division as an independent unit. In 2019, the Credit Administration Unit was strengthened with additional experienced and qualified staff and the functions carried out by the unit were expanded.

The unit was initially responsible to monitor credit security documents and review all loans of LKR 2.5 Mn. and above in the District of Gampaha. Subsequently, this was expanded to all branches in island-wide in 2019 and the unit is responsible to monitor credit security documents and review all loans of LKR 2.5 Mn. and above in Western Province and LKR 5 Mn. and above in other provinces as per the guidelines formulated.

In the year 2019, security documents of 208 facilities were reviewed by the Credit Administration Unit in order to assure that branches adhere to the guidelines given through credit policy and manual, circulars, etc. to mitigate the Credit Risk of the Bank.



LOAN REVIEW MECHANISM (LRM)

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

Adhering to the LRM Policy of the Bank, the Credit Administration Unit has prepared an Annual Plan for the year 2020 covering 40% threshold limit. Under this, physical verification of security documents and completion of conditions laid down by the approving authorities are checked by the well experienced senior officer to mitigate the Credit Risk of the Bank.

After verification, a comprehensive report is prepared by the officer visited the branch and forwarded to the Branch Manager for corrective actions if any, under the signature of Assistant General Manager – Risk with copies to relevant Regional General Manager and District Manager.

At present, credit facilities above the given limits of 9 branches have been physically reviewed by the Credit Administration Unit out of which 5 branches have been forwarded the reports as specified above.

In addition, to the above, the unit covers the following functions to mitigate the Credit Risk and Operational Risk of the Bank.

- Monitor the interest rates of the facilities granted daily.
- Monitor the Insurance Policies to be updated and inform to the relevant authorities.
- Monitor the property valuations to be updated and inform to the relevant authorities.
- Vigilant of abnormal entries in the core banking system.
- Monitor the pawning facilities above LKR 500,000.

RISK RATING

The Bank has introduced the customer rating based on bank specific format since August 2016. Customers are rated as AAA, AA, A and BBB. According to the directions given in the circular, customer who has bellow BBB rating is not eligible for a credit facility from the Bank.

RISK BASED PRICING

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

LOAN LOSS PROVISIONING (IMPAIRMENT PROVISIONS AND CBSL PROVISION)

To comply with the accounting standard of Sri Lanka the bank has calculated impairment for loan loss base on the two methods.

- Individual Impairment.
- Collective impairment.

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

- General Provision (according to Central Bank guidelines).
- Specific Provision (according to Central Bank guidelines).

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

SLFRS 9 IMPLEMENTATION

Bank Implemented SLFRS 9 with effect from January 2018. This provisioning method based on forward looking on incurred credit loss using Exposure at Default (EAD), Probability of Default (PD), Loss Given Default (LGD) as well as 1st and 2nd installments to be in arrears.

SECTORIAL LIMITS AND MANAGING CONCENTRATION RISK

The Bank has established approved sectorial limits for credit through Credit Risk Management policy. Risk Management Department of RDB periodically approved these limits according to the economic and industry standards. Business units manage their individual credit portfolio according to these sectorial limits.

APPROVED AND ACTUAL SECTORIAL LIMITS

Sector	2019-Dec		
	Actual ratio	Approved limit	Variance
Agriculture	20.86%	21.00%	(0.14%)
Animal husbandry	2.21%	3.00%	(0.79%)
Industrial (SME)	33.37%	35.00%	(1.63%)
Trading and services	0.11%	1.00%	(0.89%)
Housing	16.44%	19.00%	(2.56%)
Pawning	6.30%	6.00%	0.30%
Other priority*	18.12%	12.00%	6.12%
Staff	2.58%	3.00%	(0.42%)

*Other priority=Consumption+ Loans against Deposits+ Leasing+ Rescheduled Loans+ LDB NPL Loans

CONCENTRATION RISK

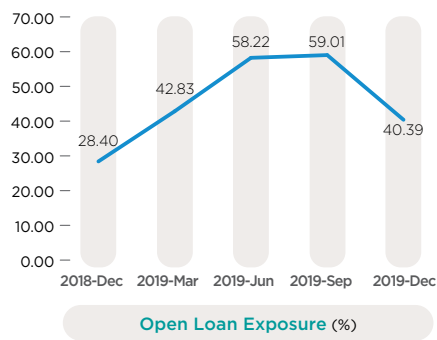
The Bank has managed the concentration risk on each sector, product and geographically based on periodic reviewed sectorial limits.

Sectors	2018	2019
	HHI	HHI
Agriculture	0.038	0.044
Animal husbandry	0.001	0.000
Industrial (SME)	0.112	0.111
Transport service loans	0.000	0.000
Housing	0.042	0.027
Pawning	0.003	0.004
Other priority	0.025	0.033
Staff	0.001	0.001
Total	0.221	0.220

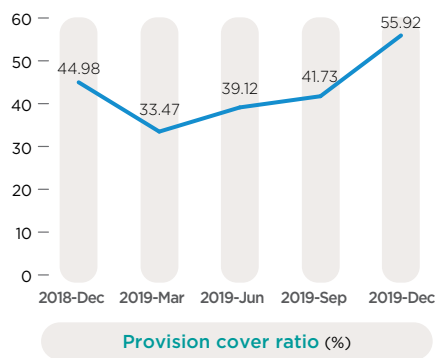
The total productwise HHI is a greater value than zero and less than 0.5. We have observed that highest concentration has placed on the SME and Micro Finance, other product has less concentration risk and has HHI very closer to Zero. Hence there is a less concentration risk on product wise credit facilities when considering each category.

RISK MANAGEMENT

THE OPEN CREDIT EXPOSURE AND THE PROVISION COVER RATIO



The ratio has increased from the beginning of the year 2019 which is not a good sign because the ratio reflect the percentage amount of NPL which the bank has to cousin in an unforeseen situation. Hence lower the ratio better for the Bank due to economic situation of the country. However, we have observed minor decline in the ratio due to decreasing trend of NPA for the period under reviewed. However the bank has taken remedial action to arrest the situation by increasing provisioning and recovery actions.



LIQUIDITY RISK

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

LIQUIDITY RISK MANAGEMENT AT RDB

The Bank has always complied with Bank Liquidity Management Framework and CBSL guidelines on Bank liquidity. It is the Bank’s policy to maintain a sound liquidity position, above the regulatory requirement of 20% on liquid asset ratio (LAR) and above 80% of Liquidity coverage ratio (LCR). To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities on an ongoing basis.

LIQUIDITY RISK GOVERNANCE

The main responsibility of managing the Bank’s liquidity lies with the Assets and Liabilities Management Committee (ALCO). ALCO is an Executive Level Committee consisting of the Bank’s Corporate and Executive level employees. The Committee meets at least once a month or more frequently on a need basis.

LIQUIDITY RISK MITIGATION, MONITORING AND REPORTING

The bank has follows two main approaches to measure Liquidity Risk of the bank which are,

- Stock approach.
- Flow approach.

According to the regulatory requirements the bank has used mainly two ratios to measure the Liquidity Risk of the Bank under stock approach.

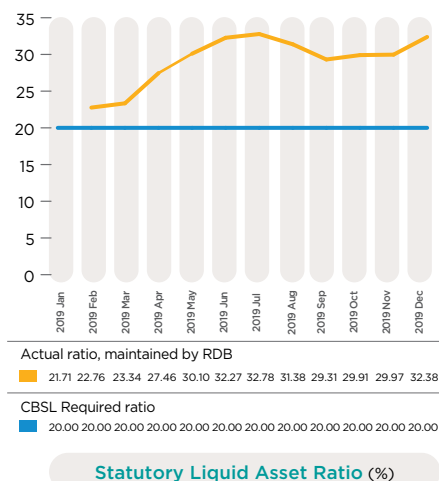
STATUTORY LIQUID ASSETS RATIO (SLAR)

RDB has maintained its Statutory Liquid Asset Ratio (SLAR) above the regulatory requirement of 20%.

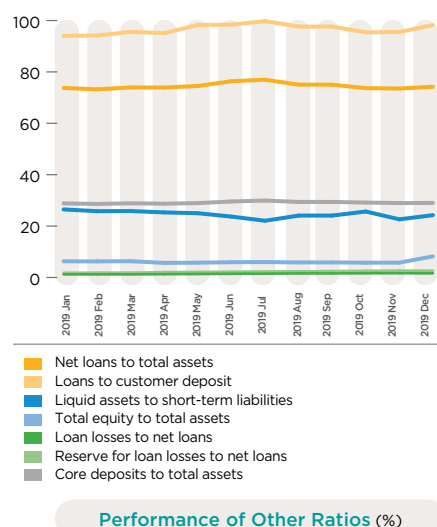
LIQUIDITY COVERAGE RATIO (LCR)

RDB has also adhered to the CBSL direction of Liquidity Coverage Ratio (LCR) in the year 2016 and maintained LCR ratio of 205.99% as at the end of December 2019 which is above the minimum regulatory requirement of (100%).

HIGHLIGHTS IN YEAR 2019



Following other ratios are also calculated for measure the Liquidity Risk.



STRESS TESTING ON LIQUIDITY

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

All figures in LKR '000

Details	Balance as at 31.12.2019	Shocks		
		Minor	Moderate	Major
Magnitude of shock		2%	4%	6%
Liquid assets	46,699,453	46,699,453	46,699,453	46,699,453
Total eligible liabilities	144,233,376	144,233,376	144,233,376	144,233,376
Value fall on total eligible liabilities		2,884,668	5,769,335	8,654,003
Revised total eligible liabilities after shock		141,348,709	138,464,041	135,579,374
Revised liquid assets after shock		43,814,786	40,930,118	38,045,451
Statutory liquid asset ratio	32.38%	31.00%	29.56%	28.06%

RISK MANAGEMENT

OPERATIONAL RISK

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

OPERATIONAL RISK MANAGEMENT AT RDB

The Bank today has 276 branches covering entire country including branches in the North and the East. RDB is the third largest bank in the country in terms of the number of branches and currently operate with more than 3000 staff members.

Up to the end of 2014, the Bank worked on four different IT platforms. Now RDB is on a new centralised IT solution and day by day the Bank introduce new technological product to their customer segments. After commissioning the new IT solution, the Bank is automatically exposed to IT Risk. Since 2015, RDB has facilitated ATM networks for the customers all over the country connected with the lanka pay network and its own ATM centers.

OPERATIONAL RISK GOVERNANCE

RDB has established a comprehensive Operational Risk Management policy in 2013 and approved by the Board of Directors. This is the main guidance of the Bank's Operational Risk Management and it is periodically review.

OPERATIONAL RISK MANAGEMENT AND MONITORING

- 12 operational subcommittees held during the year 2019 and minutes reported to the IRMC for their review.
- Operational Risk Management policy was reviewed for the year 2019 and was recommended by the IRMC and approved by the Board of Directors for the smooth functioning of the Bank.

OPERATIONAL RISK MANAGEMENT UNIT

The Operational Risk Management unit under RMD has submitted periodic reports of operational loss on monthly KRI.

OPERATIONAL RISK MANAGEMENT SUBCOMMITTEE

Since 2012 RMD has established an Operational Risk Subcommittee under the supervision of Chief Risk Officer of the Bank. The committee re-established in 2017 with the establishment of Operation Department for the Bank and now meets at least monthly and submits a report quarterly to the IRMC for their assessment. This covers all aspect of operational issues in RDB.

IT STEERING COMMITTEE

The bank has established an IT steering committee in 2013, headed by CIO of the Bank which represents all technical people and CRO and periodically discuss all IT related issues in the Bank and make recommendation and solutions to the Board of Director.

BUSINESS CONTINUITY PLAN (BCP)

The Bank finalised its Business Continuity Plan (BCP) during the year 2015 and reviewed same in 2017 covering all the branches and head office of RDB. Main responsibility of operating BCP is under DGM operations. The Bank has also carried out a BCP drilling head office in 2017.

INFORMATION SECURITY MANAGEMENT SYSTEM (ISMS)

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

OPERATIONAL RISK MITIGATION, MONITORING AND REPORTING

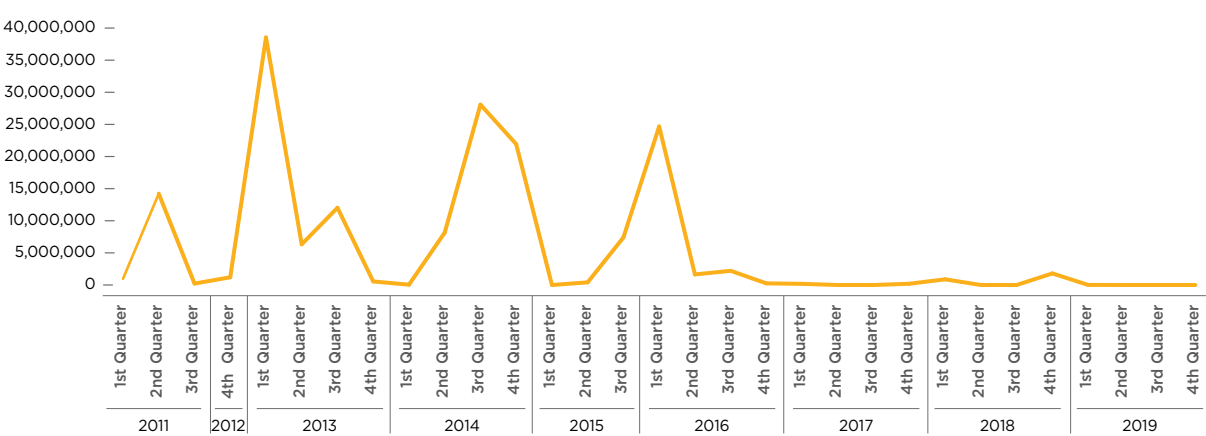
RDB has implemented following Mitigation, Monitoring and Reporting techniques for the Bank's Operational Risk Management.

LOSS DATA REPORTING

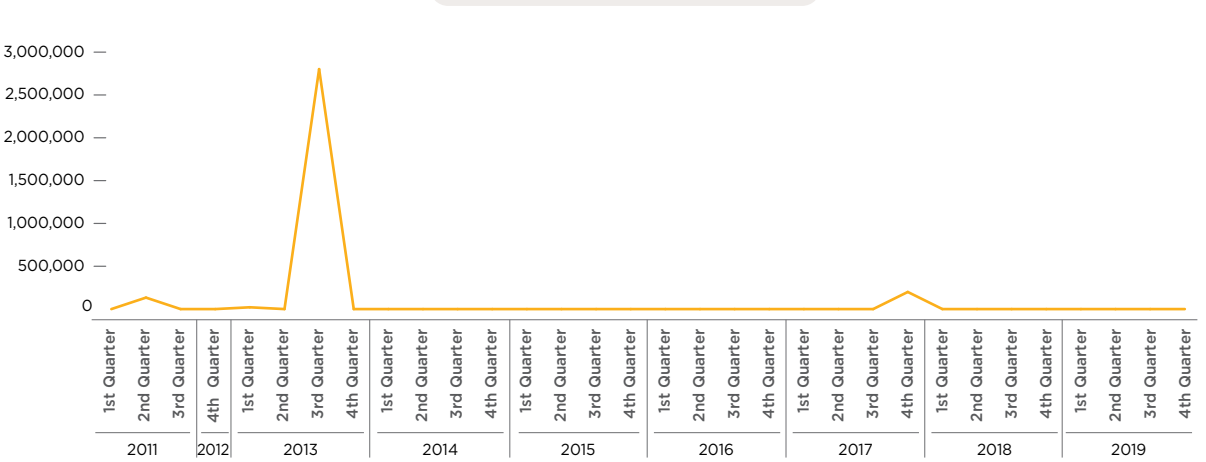
RMD is reporting the loss of data since 2012. All losses reported to the investigation unit are recorded by the RMD and in every quarter, loss data which exceeded the threshold limit of LKR 500,000/- are reported to the Central Bank. The Bank has maintained a database related to various types of loss data.

HIGHLIGHTS IN YEAR 2019

LOSS DATA REPORTING



Trend of internal fraud



Trend of external fraud

RISK MANAGEMENT

CAPITAL MANAGEMENT

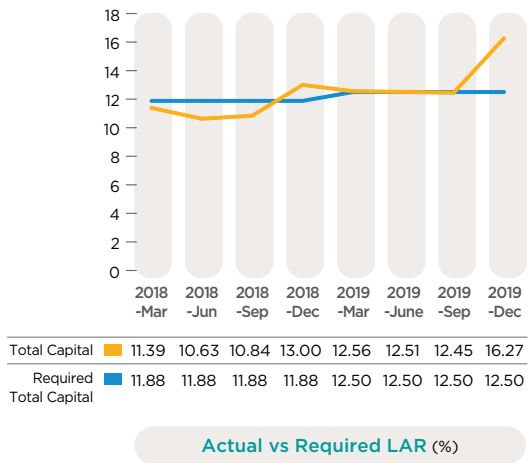
The Capital Adequacy Ratio (CAR) measures a bank's capital in relation to its risk-weighted assets. The capital to risk weighted assets ratio promotes financial stability and efficiency of the Bank. Hence the ratio (CAR) is one of the key financial indicators which show the soundness and the stability of the bank. This measures bank's ability to survive in an unexpected loss scenario during various economic activities carried out by the Bank. Basel committee has implemented set of several measures of capital of the bank. Accordingly, BASLE III accord issued in December 2010 it was replaced Basel II accord and it has come into force and effect in Sri Lanka on 1 July 2017 based on the Central Bank direction 01 of 2016 on capital requirement under BASLE III for licensed commercial banks and licensed specialised bank. Time to time RDB has revised its capital augmentation plan to have a proactive capital management to comply with the regulatory requirement. Up to the end of second quarter 2017 the bank has comply with Basel II accords and maintain minimum capital adequacy requirement of 10%, However with the introduction of Basel III from June 2017, RDB has to increase its capital to meet the capital adequacy minimum ratio of 12.5% .

Commencing from 1 July 2017 as a licensed specialised bank with less than 500 Bn. Total assets Bank must maintain under Capital (in two Tiers) as mentioned below.

	Minimum Requirement
Tier 1	7.00%
Tier 2	8.50%
Total capital	12.50%

The Bank's capital adequacy during the past two years are stated in the following manner.

REQUIRED VS ACTUAL CAPITAL ADEQUACY RATIO



Since the minimum requirements have not been met on several occasions as shown from the above graph and the bank must reach the regulatory requirement according to the Basel III accords, the Board of Directors approved the following actions to strengthen the capital base of the Bank.

1. To call for additional infusion of capital from the existing shareholders as per the Pradeshiya Sanwardana Bank Act. This does not allow a new investor to come in as a shareholder.
2. To issue debentures.

The Board has approved to raise capital through a debenture issue of up to LKR 2 Bn. in the year 2017. Carrying out the above two strategies of the Bank will strengthen its capital base to surpass the minimum requirement imposed by the regulator.

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

The results of the stress testing for the year 2019 are as follows.

Non-Performing Advance Portfolio	Original CAR	Scenario 01	Scenario 02	Scenario 03
Magnitude of the shock	-	2%	3%	4%
Directly to loss category	11.27%	11.24%	11.22%	11.20%
Shift of shock within all categories	11.27%	11.25%	11.25%	11.24%

SUMMARY OF THE CAPITAL AUGMENTATION IN PAST TWO YEARS AND PLAN FOR THE NEXT YEAR

RDB has achieved the key areas of performance such as growth, profit, efficiency like other banks in the country. Similarly, RDB too is facing a greater challenge in attracting fresh capital to its capital base in order to fulfill the Basel III capital requirements.

This is mainly due to the present capital restrictions to RDB through its formation act where the shareholding is limited to 03 state banks and the Treasury.

In order to achieve the initial Basel III capital requirements 12.5% the Treasury has increased its shareholding by infusing LKR 2.5 Bn. through the National budget in 2017 thereby increasing its stake in the Bank from 64% to 87.3%. Moreover the Bank has merged Lankaputhra Development Bank since December 2018 and has increased its capital by LKR 4,176,292,999.

The Bank has initiated and following up the actions detailed below to comply with the Basel III requirements in future.

- The Bank will curtail/ arrest the NPA growth to control the negative effect of the Capital Adequacy Ratio.
- In the process of obtaining second release of the Dollar Loan from Asian Development Bank (ADB).
- Following up the amendment to the Bank act submitted for cabinet approval so that the shareholding of the Bank could be broaden from its present shareholding position.
- Requesting the Treasury to enhance the shareholding by infusing further capital as done in the 2017 budget proposals.
- Curtailing the future credit growth and capital investments up to some extent.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The purpose of the Internal Capital Adequacy Assessment Process (ICAAP) is to determine the adequate level of capital to maintain going concerns of the bank and to ensure adequate capital levels with regard to the associated risks. The report is a fulfillment of the disclosure requirement given by the Central Bank to comply with the Basel III accords. The Board of Directors of Regional Development Bank (RDB) is prepared the ICAAP document for the Bank by including assessment of capital requirement; assessment of the risk related to entire Bank, risk Mitigating techniques, stress techniques, role of the Board of Directors on capital management and Risk Management. The result of the ICAAP report is based on audited figures as of end of each year and submitted to the Bank supervision department at the end of May.

RISK MANAGEMENT

COMPLIANCE RISK MANAGEMENT

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

The key objectives of the Compliance Officer are to ensure the internal controls and regulatory requirements are complied with. The Bank's compliance function falls under the purview of the IRMC headed by SAGM Compliance. In order to achieve this objective, he monitors and assesses the compliance requirements and submits quarterly reports on the compliance status of the Bank to the IRMC for review.

The Compliance Officer also overlooks the timely submission of necessary statutory reports of the Bank to the regulator.

INTEREST RATE RISK

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

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

INFORMATION RISK AND CYBER RISK

Technology risk arises from the use of computer systems in the day-to-day conduct of the bank's operations, reconciliation of books of accounts, and storage and retrieval of information and reports. Cyber risks arise from cyber-attacks or breaches to systems, networks or databases resulting in loss of customer data, disruption to operations or reputational damages.

RISK GOVERNANCE OF THE INFORMATION AND CYBER RISK

IT STEERING COMMITTEE

The bank has established an IT steering committee in 2013 headed by CIO of the Bank, which represents all technical people and CRO and periodically discuss all IT related issues in the Bank and make recommendation and solutions to the Board of Director.

INFORMATION RISK AND CYBER RISKS RISK MITIGATION, MONITORING AND REPORTING

- Strong IT governance including a robust IT Security policy and clearly defined responsibilities.
- Regular IT vulnerability assessments.
- Ongoing investments in upgrading hardware and software.
- IT audits by independent parties.

FUTURE LOOKING

The Bank's management has identified the importance of the Risk Management within the competitive financial industry very well. Investing in the improvement of Risk Management function become the vital role in the next couple of years. The bank management has already taken following necessary steps to strengthen the Risk Management framework.

- Purchasing credit score ring and credit rating system.
- Purchasing automated SLFRS 9 accounting system.
- Purchasing Loan Originating System (LOS) to strengthen the quality credit portfolio.
- Implement the bank wide early warning system.
- Fully comply with Basel regulation.
- Establish cyber security mitigation techniques.
- Establish ISO 27000 for the IT security.

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AUDITOR GENERAL'S REPORT ON CORPORATE GOVERNANCE



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Your No. }

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திகதி } 26 June 2020
Date }

The Chairman,
Pradeshiya Sanwardana Bank.

Auditor General's Report of Factual Findings of Pradeshiya Sanwardana Bank on the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka - 31 December 2019

I have performed the procedures enumerated in Annexure-1 to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the Corporate Governance Directive issued by the Central Bank of Sri Lanka (CBSL). My engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Directive.

I report my findings in the attached Annexure-1 to this report.

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

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

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

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

W.P.C. Wickramaratne
Auditor General

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CORPORATE GOVERNANCE



ANNEXURE - 1

ANNEXURE TO THE REPORT ON FACTUAL FINDINGS

Level of Compliance	
3(1) THE RESPONSIBILITIES OF THE BOARD	
3(1)(i) Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the bank.	
a) The Board approval, the bank's strategic objectives and corporate values.	PARTIALLY COMPLIED WITH; Board approved Corporate plan which was prepared for 2016-2020 and annual budget are in place. Those consisted with strategic objectives and corporate values of the Bank. However, existing corporate plan forecasts only up to year 2020. Strategic objectives and corporate values of the bank have been communicated to staff through awareness meetings at Head office level to Regional General Managers and province level to Branch Manager.
Whether the Bank has communicated the bank's strategic objectives and corporate values throughout the bank.	
b) The Board approval of the overall business strategy of the bank.	PARTIALLY COMPLIED WITH; The Board approved Corporate Plan (2016-2020) includes the overall business strategy of the Bank. Overall risk policy and Risk Management procedures have been prepared and approved by the Board with the recommendation of the Board Integrated Risk Management Committee and which is reviewed periodically. However, measurable goals in the Corporate Plan forecasts only up to year 2020.
The overall business strategy includes the overall risk policy, Risk Management procedures and mechanisms and they are documented.	
The overall business strategy contains measurable goals, for at least the next three years.	
c) The appropriate systems to manage the risks identified by the Board are prudent and are properly implemented.	COMPLIED WITH; The Board approved Integrated Risk Management Policies and procedures include continuous and prudent assessment process. Further it's reviewed by the Board Integrated Risk Management Committee (BIRMC).
d) The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	COMPLIED WITH; A Board approved communication policy is in place and it includes communication with all stakeholders, including depositors, creditors, share-holders and borrowers.

CORPORATE GOVERNANCE



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Level of Compliance

e) The Board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	<p>COMPLIED WITH;</p> <p>All Key Management personnel especially with DGM - Operation are responsible on the establishing and updating of internal control system of the Bank.</p> <p>Also Internal Audit Department reviews the adequacy and integrity of the internal control system and management information system of the Bank.</p> <p>And also submitted reports reviewed by the Board Audit Committee.</p>
f) The Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and Risk Management;	<p>COMPLIED WITH;</p> <p>The Board has identified and designated Key Management Personnel of the Bank.</p>
g) The Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the key management personnel;	<p>COMPLIED WITH;</p> <p>Board Charter defines the areas of authority and key responsibilities for the Board of Directors themselves.</p> <p>The areas of authority and key responsibilities of the Key Management Personnel have been documented in relevant Job Descriptions.</p>
h) The Board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with Board policy;	<p>COMPLIED WITH;</p> <p>The Board exercise appropriate oversight of the affairs of the Bank through Board and Board Subcommittees.</p> <p>Further, Key Management Personnel are called for the Board Meetings if any clarification needed.</p>
<p>i) The Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including:</p> <p>(i) The selection, nomination and election of Directors and key management personnel;</p> <p>(ii) The management of conflicts of interests; and</p> <p>(iii) The determination of weaknesses and implementation of changes where necessary.</p>	<p>PARTIALLY COMPLIED WITH;</p> <p>Self assessment forms of Board of Directors are available.</p>



Level of Compliance

j) The Board has a succession plan for key management personnel.	PARTIALLY COMPLIED WITH; Board approved succession policy for the key management personnel is in place. However, up to date succession plan is not available.
k) The Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	COMPLIED WITH; The Board conducts meetings regularly to discuss and review the progress of corporate objectives and invite to key management personnel for further information and granting advice.
l) The Board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	COMPLIED WITH; The Board has taken measures and processes in place to understand the regulatory environment and maintain relationship with regulators.
m) The Board has a process in place for hiring and oversight of external auditors.	NOT APPLICABLE; Under section 33 of the Pradeshiya Sanwardana Bank Act, Auditor General is the external auditor of the Bank.
3(l)(ii) The Board has appointed the Chairman and the Chief Executive Officer (CEO). The functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	COMPLIED WITH; The Chairman has been appointed by Hon. Minister with consultation to the Treasury. General Manager is appointed by the Board. The chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day to day management of the Bank's operation and the business. However, Chairman involves in the signing of agreements, bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018.
3(l)(iii) The Board has met regularly and held Board meetings at least twelve times a year at approximately monthly intervals.	COMPLIED WITH; Generally, the Board meetings are held monthly. And also special meetings are conducted additionally as on the necessity. 16 meetings have been held during the year 2019 and a Board meeting was not held during the month of December adhering to the instruction given by the Secretary to the Treasury.
3(l)(iv) The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	COMPLIED WITH; Regular Board meetings are scheduled monthly. Directors are informed on next meeting date well in advance and enabling them to include matters and proposals.

CORPORATE GOVERNANCE



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Level of Compliance

3(l)(v)	That the Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. And for all other Board meetings, notice has been given.	COMPLIED WITH; Notice of the regular Board meeting provides before 7 days to meeting date. Other special meetings are held with reasonable notice.
3(l)(vi)	The Board has taken required action on Directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the Directors' meetings through an alternate Director, however, to be acceptable as attendance.	COMPLIED WITH; There were no occasions observed on not attending more than two third of Board meetings or immediately preceding three consecutive meetings.
3(l)(vii)	The Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	COMPLIED WITH; A Board Secretary has been appointed by the Board as defined by Sec.43 of the Banking Act No. 30 of 1988 and as per the section 19 of the Pradeshiya Sanwardana Bank Act, the secretary shall be an officer on fulltime basis.
3(l)(viii)	The process to enable all Directors to have access to advice and services of the company secretary.	COMPLIED WITH; All Directors have access to advice and service of the Board secretary.
3(l)(ix)	The company secretary maintains the minutes of Board meetings and there is a process for the Directors to inspect such minutes.	COMPLIED WITH; The Board Secretary maintains minutes of Board meetings. Further such minutes are available for inspection of any Director.
3(l)(x)	The minutes of a Board meeting contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations. (b) the matters considered by the Board. (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the bank is exposed and an overview of the Risk Management measures adopted; and (f) the decisions and Board resolutions.	COMPLIED WITH; Board Minutes will cover the following requirements, I. Business decisions taken on particular subjects. II. Resolutions passed on special subjects. III. Instructions and matters directed to management. IV. Policy decisions on matters and review of performances. V. Recommendations on Board Sub-Committee reports. VI. Compliance with the Board's strategies and policies. VII. Overview of the Risk Management measures.
3(l)(xi)	There are procedures agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	COMPLIED WITH; The Board approved procedure to seek independent professional advice is available.



Level of Compliance

3(l)(xii)	<p>There is a procedure to determine, report, resolve and to take appropriate action relating to Directors avoids conflicts of interests, or the appearance of conflicts of interest.</p> <p>A Director has abstained from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern in which a Director has substantial interest, is interested.</p> <p>Has he/she been counted in the quorum for the relevant agenda item at the Board meeting.</p>	<p>COMPLIED WITH;</p> <p>When a resolution is passed at the Board meetings regarding a particular matter on which Directors are personally interested, he/she abstained from voting for the resolution.</p> <p>The interesting director does not count in the quorum for the relevant agenda item at the Board meeting.</p>
3(l)(xiii)	<p>The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.</p>	<p>COMPLIED WITH;</p> <p>A schedule of matters reserved for Board's decisions is included in the agenda to ensure Board's contribution in the decision-making process to make the ultimate decisions.</p>
3(l)(xiv)	<p>The Board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.</p>	<p>NOT APPLICABLE;</p> <p>Although, such a situation has not arisen, the Board is aware of the necessity to inform the Director of Bank Supervision, prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payment to its depositors and other creditors.</p>
3(l)(xv)	<p>The Board has the bank capitalised at levels as required by the Monetary Board.</p>	<p>PARTIALLY COMPLIED WITH;</p> <p>Bank has maintained the capital adequacy ratio as at 31.12.2019 as determined by the monetary Board. However, some occasions were reported below the required level.</p>
3(l)(xvi)	<p>The Board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.</p>	<p>COMPLIED WITH;</p> <p>The Annual Report includes the Corporate Governance Report setting out the compliance requirement with the corporate governance direction issued by the Central Bank of Sri Lanka.</p>
3(l)(xvii)	<p>The Board adopts a scheme of self-assessment to be undertaken by each Director annually, and maintains records of such assessments.</p>	<p>COMPLIED WITH;</p> <p>Self-Assessment forms of Board of Directors are available.</p>

CORPORATE GOVERNANCE



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Level of Compliance

3(2) THE BOARD'S COMPOSITION

3(2)(i)	Board comprise of not less than 7 and not more than 11 Directors.	COMPLIED WITH; Board comprises with 08 Directors as at 26.11.2019.
3(2)(ii)	(A) The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	COMPLIED WITH; None of the Directors have exceeded nine years as described in the direction
	(B) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.	NOT APPLICABLE; Such a situation has not arisen.
3(2)(iii)	The number of executive Directors, including the CEO does not exceed one-third of the number of Directors of the Board.	COMPLIED WITH; There were 01 executive Director and including CEO in the Board does not exceed one third.
3(2)(iv)	The Board has at least three independent non-executive Directors or one third of the total number of Directors, whichever is higher. Check if Non-Executive Directors can be considered independent if he/she:	PARTIALLY COMPLIED WITH; There were four Independent/Non-Executive Directors in the Board as at 26.11.2019. According to the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Three Non-Independent Directors are being appointed from each of shareholder Banks and One Non-Independent Director being appointed for the General Treasury.
	a) Holds a direct and indirect shareholdings of more than 1 per cent of the bank;	NOT APPLICABLE;
	b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	NOT APPLICABLE;
	c) has been employed by the bank during the two year period immediately preceding the appointment as Director.	NOT APPLICABLE;
	d) has had a close relation; who is a Director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	NOT APPLICABLE;



Level of Compliance

e)	represents a specific stakeholder of the bank	NOT APPLICABLE;
f)	is an employee or a Director or a material shareholder in a company or business organisation: I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or II. in which any of the other Directors of the bank are employed or are Directors or are material shareholders; or III. in which any of the other Directors of the bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.	NOT APPLICABLE;
3(2)(v)	In the event an alternate Director was appointed to represent an independent Director, check the person so appointed meet the criteria that applies to the independent Director.	NOT APPLICABLE; There are no provisions for appointing alternate Directors as per the Pradeshiya Sanwardana Bank Act No.41 of 2008.
3(2)(vi)	The Bank has a process for appointing independent Directors.	NOT APPLICABLE; Directors are appointed by the Hon. Minister in consultation with Secretary to the Treasury.
3(2)(vii)	That the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include Non-Executive Directors.	COMPLIED WITH; As per section 16 of the Pradeshiya Sanwardana Bank Act, the quorum includes 5 if the Board consisted with 7 Directors and 6 if the number of Directors over 7.
3(2)(viii)	The Bank discloses the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report.	COMPLIED WITH; Composition of the Board and their information is disclosed in the Annual Report.
3(2)(ix)	The procedure for the appointment of new Directors to the Board.	NOT APPLICABLE; Directors are appointed by the Hon. Minister with consultation of Secretary to the treasury.
3(2) (x)	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	NOT APPLICABLE; Appointments and removal of Directors are done by the Hon. Minister with consultation of Secretary to the treasury.

CORPORATE GOVERNANCE



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Level of Compliance

3(2)(xi)	If a Director resigns or is removed from office, the Board: (a) announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	COMPLIED WITH; Appointment and removal of Directors are done by the Hon. Minister with consultation of secretary to the Treasury. Resigning Director acknowledges his/ her resignation through a letter to the Bank and based on that letter the Bank informs to the Ministry that Director has resigned.
3(2)(xii)	Check if there is a process to identify whether a Director or an employee of a bank is appointed, elected or nominated as a Director of another bank.	COMPLIED WITH; Such situation will not be arisen since the Directors are been appointed by Hon. Minister in consultation with Secretary to the Treasury. Also the Central Bank of Sri Lanka assesses Fitness and propriety based on the declarations obtained from Directors and Key Management Personnel.
3(3)	CRITERIA TO ASSESS THE FITNESS AND PROPRIETY OF DIRECTORS	
3(3)(i)	The age of a person who serves as Director does not exceed 70 years.	COMPLIED WITH; No Director comprises in the Board who are over 70 Years.
	(A) The transitional provisions have been complied with	Not Applicable;
3(3)(ii)	If a person holds office as a Director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the bank.	COMPLIED WITH; None of the Directors hold directorship in 20 companies as on their declarations.
3(4)	MANAGEMENT FUNCTIONS DELEGATED BY THE BOARD	
3(4)(i)	The delegation arrangements have been approved by the Board.	COMPLIED WITH; The Board has delegated matters pertaining to the affairs of the Bank to the Board sub-committees and also to CEO and other Key Management Personnel.
3(4)(ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	COMPLIED WITH; Board takes the responsibility for the matters in 3 (1) (i) even though such matters are delegated.
3(4)(iii)	The Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	COMPLIED WITH; The Board reviews and approves the delegation process on a periodic basis. Approval limits has been determine according to authority level.



Level of Compliance

3(5) THE CHAIRMAN AND CEO

3(5)(i)	<p>The role of Chairman and CEO is separate and not performed by the same individual.</p>	<p>COMPLIED WITH;</p> <p>The positions of the Chairman and the CEO are separated and performed by two individuals.</p> <p>The chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day to day management of the Bank's operation and the business.</p> <p>However, Chairman involved in the signing of agreements, Bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018.</p>
3(5)(ii)	<p>The Chairman is a non-executive Director.</p> <p>In the case where the Chairman is not an independent Director, check that the Board designate an independent director as the senior Director with suitably documented terms of reference.</p> <p>The designation of the senior Director is disclosed in the bank's Annual Report.</p>	<p>COMPLIED WITH;</p> <p>Chairman is an Independent Non-Executive Director. And the Bank has not designated any Director as Senior Director.</p>
3(5)(iii)	<p>The Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and Board members and the nature of any relationships including among members of the Board.</p>	<p>COMPLIED WITH;</p> <p>Annual declarations help to identify such relationships.</p>
3(5)(iv)	<p>The Board has a self- evaluation process where the chairman:</p> <ul style="list-style-type: none"> (a) provides leadership to the Board; (b) ensures that the Board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner. 	<p>PARTIALLY COMPLIED WITH;</p> <p>Self-Assessment forms of Board of Directors are available.</p>

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Level of Compliance

3(5)(v)	A formal agenda is circulated by the company secretary approved by the chairman.	COMPLIED WITH; The agenda for each Board meeting is prepared and circulated by the Board secretary in consultation with Chairman and CEO.
3(5)(vi)	The Chairman ensures, through timely submission that all Directors are properly briefed on issues arising at Board meetings.	COMPLIED WITH; Matters to be taken up for discussions in Board Meetings are circulated with the notice of the meeting at least 07 days prior to the meeting other than urgent matters.
3(5)(vii)	The Board has a self-evaluation process that encourages all Directors to make a full and active contribution to the Board's affairs and the chairman taking the lead to act in the best interest of the bank.	PARTIALLY COMPLIED WITH; Self-Assessment forms of Board of Directors are available.
3(5)(viii)	The Board has a self-evaluation process that assesses the contribution of Non-Executive Directors.	PARTIALLY COMPLIED WITH; Self-Assessment forms of Board of Directors are available.
3(5)(ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	COMPLIED WITH; Chairman is a Non-Executive Director and he does not involved supervision of Key Management Personnel directly. However, Chairman involves in the signing of agreements, Bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018.
3(5)(x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	COMPLIED WITH; As per the Pradeshiya Sanwardana Bank Act No.41 of 2008, four ex-officio members have been appointed representing three share holder Banks and the General Treasury. Therefore, they act as a channel between the Board and Shareholders.
3(5)(xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	COMPLIED WITH; The CEO is an executive officer in charge for day to day management of the bank operation.



Level of Compliance

3(6) BOARD APPOINTED COMMITTEES

3(6)(i)	<p>The Bank has established at least four Board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.</p> <p>Check that each Board committee report is addressed directly to the Board.</p> <p>The Board presents in its annual report, a report on each committee on its duties, roles and performance.</p>	<p>COMPLIED WITH;</p> <p>The Bank has established following Board Subcommittees which are directly report to the Board as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.</p> <p>Board Audit Committee Board HR and Remuneration Committee Board Nomination Committee Integrated Risk Management Committee Board IT Steering Committee Board Credit Committee</p> <p>A report on each committee on its duties, roles and performance includes in the annual report.</p>
3(6)(ii)	<p>Audit Committee:</p> <p>(a) Chairman of the Audit Committee is an independent Non-Executive Director possesses qualifications and experience.</p> <p>(b) All members of the committee are Non-Executive Directors.</p> <p>(c) The committee has made recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p> <p>d) The committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.</p>	<p>NOT COMPLIED WITH;</p> <p>The Chairman of the Audit Committee is the Director appointed for the General Treasury. Since the majority of share capital is owned by General Treasury, above Director is not independent.</p> <p>COMPLIED WITH;</p> <p>All members of the committee are Non-Executive Directors.</p> <p>NOT APPLICABLE;</p> <p>As per section 33 of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, the Auditor General is the external auditor of the Bank.</p> <p>Government Auditor represents Board Audit Committee by invitation and applicable Government/ Central Bank guidelines which are issued to auditors from time to time and relevant accounting standards are been discussed in the meetings.</p> <p>NOT APPLICABLE;</p> <p>As per section 33 of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Auditor General is the external auditor of the Bank.</p>

CORPORATE GOVERNANCE



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NATIONAL AUDIT OFFICE

Level of Compliance

e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	NOT APPLICABLE; Such situation has not arisen since Auditor General is the auditor of the Bank
f) The committee has discussed and finalised the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	NOT APPLICABLE; Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.
g) The committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	COMPLIED WITH; The Board Audit Committee Reviews Quarterly and Annually Financial Statements of the Bank considering with major judgmental areas, changes in accounting policies, relevant accounting standards and other legal requirements.
h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	COMPLIED WITH; Committee had meetings with the external auditor without executive management.
i) The committee has reviewed the external auditor's management letter and the management's response thereto.	COMPLIED WITH; Committee has reviewed the Management Letters for the years 2017, 2018 and the responses there to.
j) The committee shall take the following steps with regard to the internal audit function of the bank:	
I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	COMPLIED WITH;
II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	COMPLIED WITH;
III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	COMPLIED WITH; Board Audit Committee has reviewed Annual Performance Appraisal Report of the Chief Internal Auditor for the year 2018.



Level of Compliance

IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	<p>COMPLIED WITH;</p> <p>The appointment was approved by the full Board though the recommendation of the Board Audit committee.</p>
V. The committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	<p>COMPLIED WITH;</p> <p>The committee is appraised the performance of Head of Audit of the Internal Audit Department.</p>
VI. The internal audit function is independent of the activities it audits.	<p>COMPLIED WITH;</p> <p>Internal audit function is independent of the activities it audits and directly report to the Board Audit Committee.</p>
k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	<p>COMPLIED WITH;</p> <p>The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.</p>
l) Whether the committee has had at least two meetings with the external auditors without the Executive Directors being present.	<p>COMPLIED WITH;</p> <p>The committee has had at least two meeting without the Executive Director.</p>
m) The terms of reference of the committee to ensure that there is;	<p>COMPLIED WITH;</p> <p>The "Terms of Reference" of the Audit Committee covers all these areas.</p>
(i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	
n) The committee has met, at least four times and maintained minutes.	<p>COMPLIED WITH;</p> <p>Seven committee meetings had been held during the Year 2019 and maintain minutes.</p>
o) The Board has disclosed in the annual report,	<p>COMPLIED WITH;</p> <p>Details of the activities, number of audit committee meetings held and details of attendance are disclosed in the annual report.</p>
(i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual Director at such meetings	

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Level of Compliance

p)	The Secretary of the Committee is the company secretary or the head of the internal audit function.	COMPLIED WITH; Board Secretary is the secretary to the Audit Committee.
q)	The "whistle blower" policy covers the process of dealing with;	COMPLIED WITH; Board approved "whistle blower" policy is in place.
i)	The improprieties in financial reporting, internal control or other matters.	
ii)	In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and	
iii)	Appropriate follow-up action.	
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
a)	The committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to Directors, CEO and key management personnel of the bank by review of the "Terms of reference" and minutes.	COMPLIED WITH; Remunerations of Directors are governed by Public Enterprise Department Circulars. The Committee has approved a Remuneration policy to determine the remuneration, allowances and other financial payments relating to Key Management personnel.
b)	The goals and targets for the Directors, CEO and the key management personnel are documented.	PARTIALLY COMPLIED WITH; Goals and Targets for the key management personnel have been documented through annual action plan given by each key management personnel. However, goals and targets for CEO and for Directors have not been documented.
c)	The Committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically to determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	PARTIALLY COMPLIED WITH; The Board HR and Remuneration Committee had evaluated the performance of key management personnel. However, performance of some Key Management Personnel has not been evaluated. The performance evaluation of CRO, CO and CIA who are engaged the independent functions are being reviewed by relevant Board Sub Committees.
d)	The "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	COMPLIED WITH; "Terms of Reference" of the BHRRC provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed.



Level of Compliance

3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:	
a)	The committee has implemented a procedure to select/appoint new Directors, CEO and key management personnel.	COMPLIED WITH: Appointments of Directors are done by the Hon. Minister in consultation with the Secretary to the Treasury. The Board appoints the CEO. Committee sets the criteria to select/appoint/promote key management personnel.
b)	The committee has considered and recommended (or not recommended) the re-election of current Directors.	NOT APPLICABLE; The Hon. Minister appoints the Board of Directors in consultation with Secretary to the Treasury.
c)	The committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	COMPLIED WITH. The required qualification and experience to be eligible for selection for the posts of Chief Executive Officer, Deputy General Managers and Regional General Managers have been determined by Pradeshiya Sanwardana Bank Act No. 41 of 2008. Eligibility/Selection criteria and qualifications for key Management personnel may determine by Nomination Committee / Board.
d)	The committee has obtained from the Directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	COMPLIED WITH; Declarations on fitness and propriety of the Directors, CEO and Key Management Personnel were obtained and approved by Bank Supervision Department which have been updated by the Bank at the change of Positions / Qualifications.
e)	The committee has considered a formal succession plan for the retiring Directors and key management personnel.	PARTIALLY COMPLIED WITH; The succession arrangements for the Directors are being done through Hon. Minister in consultation with Secretary to the Treasury. Succession policy is in place for the key management personnel. However, succession plan has not been updated.
f)	The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	COMPLIED WITH; An Independent Director has chaired at the meeting. As per the TOR, CEO shall participate meetings by invitation. However, CEO has participated for all meetings.

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NATIONAL AUDIT OFFICE

Level of Compliance

3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
a)	The committee shall consist of at least three Non-Executive Directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	<p>COMPLIED WITH;</p> <p>The committee consists of 03 Non-Executive Directors, Chief Executive Officer and Chief Risk Officer. The Compliance Officer has been attended to meetings on invitation during the Year 2019.</p>
b)	The committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, Risk Management shall be done, both on a bank basis and group basis.	<p>COMPLIED WITH;</p> <p>The committee assesses risks and prepared the report on Key Risk Indicators of the Bank on a monthly basis by Chief Risk Officer and submitted to the Board. Also recommendations of the IRMC are submitted for the review of Board of Directors. However, assessing of some risks need to be further improved reflecting the risk profile of the bank.</p>
c)	The committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	<p>COMPLIED WITH;</p> <p>Management level committee meeting minutes were reviewed by the by BIRMC to ensure adequacy and effectiveness of committee operations.</p>
d)	The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	<p>COMPLIED WITH;</p> <p>Reports on Key Risk Indicators were reviewed by the committee.</p>
e)	How many times the committee has met at least quarterly.	<p>COMPLIED WITH;</p> <p>Committee has met 04 times for the year 2019.</p>
f)	The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	<p>COMPLIED WITH;</p> <p>The formal disciplinary code is in place. The committee has taken decisions relating to risk matters through the committee papers. However, there is no any identified event for the year of 2019.</p>
g)	The committee submits a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	<p>COMPLIED WITH;</p> <p>Report on the Key Risk Indicators of the Bank is prepared on a monthly basis by Chief Risk Officer of the Bank and submitted to the nearest Board meeting. Further, minutes of the IRMC meetings are submitted to the Board.</p>



Level of Compliance

h) The committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.

COMPLIED WITH;

Compliance function of the Bank is headed by the Compliance Officer and a compliance risk assessment report is submitted to BIRMC periodically by the Compliance Officer.

3(7) RELATED PARTY TRANSACTIONS

3(7)(i) There is a established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:

PARTIALLY COMPLIED WITH;

Board approved policy on Related Party Transaction is available. However, above policy covers the guidelines for facilitating accommodation to Directors and related companies only and it has not been reviewed. Transactions belong to related parties can be captured through system using the NIC based on the declarations.

- Any of the bank's subsidiary companies;
- Any of the bank's associate companies;
- Any of the Directors of the bank;
- Any of the bank's key management personnel;
- A close relation of any of the bank's Directors or key management personnel;
- A shareholder owning a material interest in the bank;
- A concern in which any of the bank's Directors or a close relation of any of the bank's Directors or any of its material shareholders has a substantial interest.

3(7)(ii) There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.

PARTIALLY COMPLIED WITH;

Related Party Transaction Policy is in place. However, above policy covers (a) only. Related party transactions can be identified based on declarations provided.

- The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.
- The creation of any liabilities of the bank in the form of deposits, borrowings and investments.
- The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.
- The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.

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Level of Compliance

3(7)(iii)	<p>Does the Board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties “more favorable treatment” than that accorded to other constituents of the bank carrying on the same business.</p> <p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the Board. For purposes of this sub-direction:</p> <p>I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’s</p> <p>III. Share capital and debt instruments with a maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;</p> <p>d) Providing services to or receiving services from a related-party without an evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.</p>	<p>PARTIALLY COMPLIED WITH;</p> <p>Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two thirds of the number of Directors constituting the Board. However, there is no process of identifying more favorable treatment given to Key Management Personnel (if any).</p>
3(7)(iv)	<p>The bank has a process for granting accommodation to any of its Directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favor of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary Board as well.</p>	<p>PARTIALLY COMPLIED WITH;</p> <p>No such occasions have been reported during the year in relation to Directors. However, Key Management Personnel’s accommodations are not sanctioned from the Board and normal loan approval process has been adopted.</p>



Level of Compliance

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

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Level of Compliance

3(8) DISCLOSURES

3(8)(i)	The Board has disclosed:	COMPLIED WITH;
	(a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Annual audited financial statements are prepared and published in accordance with the format prescribed by the supervisory and regulatory authorities and applicable accounting standards. Those Statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.
	(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	
3(8)(ii)	Check that the Board has made the following minimum disclosures in the Annual Report.	
	a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	COMPLIED WITH; The Notes to the Financial Statements disclosed that the Financial Statements have been prepared in accordance with Sri Lanka Accounting standards in compliance with the requirement of the Banking Act No.30 of 1988.
	b) The report by the Board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	COMPLIED WITH; Report of the Internal Control System over Financial Reporting is given under the "Directors' Statement on Internal Control".
	c) The Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	COMPLIED WITH; The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting from the Auditor General.
	d) Details of Directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	COMPLIED WITH; Details of Directors, including names, qualifications, and experience of the Board of Directors has disclosed under Board of Directors. Further, fees/remunerations paid to the Board of Directors has disclosed under Notes to the Financial Statements.



Level of Compliance

e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	COMPLIED WITH;
f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	COMPLIED WITH; The aggregate value of remuneration paid to the Key Management Personnel and the aggregate value of transactions with Key Management Personnel are disclosed under Notes to the Financial Statements
g) The Board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	COMPLIED WITH; External Auditor's report on compliance with Corporate Governance Directions is included in the Annual Report.
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	COMPLIED WITH; The details of the compliance with prudential requirements, regulations and laws and internal controls were include in the Directors Report.
i) A statement of the regulatory and supervisory concerns on lapses in the bank's Risk Management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	NOT APPLICABLE; No such direction was given as disclose to the public by the Monitory Board.

BOARD OF DIRECTORS/BOARD SUBCOMMITTEES COMPOSITION AND DIRECTORS/COMMITTEE MEMBERS ATTENDANCE AT BOARD AND BOARD SUB-COMMITTEE MEETINGS DURING THE YEAR 2019

	Board of Directors	Board Audit Committee	Integrated Risk Management Committee	Board HR and Remuneration Committee	Board Credit Committee	Board Nomination Committee	Board IT Steering Committee
Name of Directors and Executive / Non-Executive/Independent Capacity	* * E A	* * * S E A	* * * S E A	* * * S E A	* * * S E A	* * * S E A	* * * S E A
1. Mr. J T S P Kariyawasam (Chairman)	16 16			C 10 10	C 07 07	C 04 04	
2. *Mr. T A Ariyapala (General Manager)	03 03			02 02			01 01
3. **Mr. T Kuhan (General Manager)	13 13		04 04	08 08	07 07	04 04	02 02
4. ***Mr. A R Desapriya (Board Director)	03 02						
5. ****Mr. A K Seneviratne (Board Director)	13 13	C 07 07					
6. Mr. K B Wijeyaratne (Board Director)	16 15	M 07 07	C 04 04	M 03 03	M 07 06	M 02 02	
7. *****Mr. K B Rajapakse (Board Director)	09 09		C 03 03		M 04 04		C 02 02
8. *****Mr. M A B Silva (Board Director)	04 04				M 01 01		
9. Mr. M J P Salgado (Board Director)	16 12		M 04 04	M 04 04		M 03 03	M 03 03
10. ***** Mr. Neil De Alwis (Board Director)	06 06	M 01 01	M 01 01	M 06 06		M 01 01	M 01 01
11. ***** Mr. K Amarasinghe (Executive Director)	06 06		M 01 01	M 06 06	M 03 02		
12. *****Mr. J R Fernandez (Board Director)	09 09						C 02 02
13. *****Mrs. Y M D Warnasuriya (Board Director)	09 08	M 05 05		M 04 04		M 03 02	
14. *****Mr. S J C Perera (Board Director)	06 05	M 03 01	M 01 01		M 03 02		M 01 01

*S – Status of Director in Respective Committees

C – Chairman of Committee; M – Member of the Committee

*E – Eligibility of Attendance *A – Attendance BI – By Invitation

* Retired w.e.f. 30.01.2019

** Acting GM/CEO w.e.f. 01.02.2019 and GM/CEO w.e.f. 01.11.2019

*** Resigned w.e.f. 31.01.2019

**** Appointed on 21.02.2019

***** Term expired w.e.f. 01.07.2019

***** Appointed on 25.07.2019 and fit & propriety was received on 18.09.2019

***** Resigned w.e.f. 01.04.2019

***** Resigned w.e.f. 01.04.2019

***** Appointed on 21.02.2019 and fit & propriety was received on 15.05.2019

***** Appointed on 12.03.2019 and fit & propriety was received on 15.05.2019

***** Appointed on 04.06.2019 and fit & propriety was received on 24.07.2019

ANNUAL REPORT OF THE BOARD OF DIRECTORS

GENERAL

The Directors of the Pradeshiya Sanwardana Bank (RDB) take pleasure in presenting their Annual Report on the affairs of the Bank, together with the Audited Financial Statements of the Bank's tenth year ended 31 December 2019. The Report also confirms to the requirements of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and Directions on Corporate Governance. The Bank was originally established in 1997 when seventeen Rural Development Banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. These six Provincial Development Banks were further merged in May 2010 as a National Level Development Bank and named the Pradeshiya Sanwardana Bank (Regional Development Bank or RDB). RDB was established under the Pradeshiya Sanwardana Bank Act No. 41 of 2008. RDB is a fully state-owned National level Bank with the objectives of empowering the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

PRINCIPAL ACTIVITIES

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

VISION & MISSION

The Bank's Vision and Mission are given on page 3 of this Annual Report. The Bank maintains high ethical standards in its activities whilst pursuing the objectives stated under the Vision and Mission.

GOING CONCERN

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

FINANCIAL STATEMENTS

The financial statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and complied with the Banking Act No. 30 of 1988. The financial statements of the Bank's tenth year ended 31 December 2019, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 115 and form an integral part of the Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements that will reflect a true and fair view of the state of the affairs of the Bank. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments.

The Directors' Responsibility Statement appearing on page 103 of this Annual Report describes in detail the Directors' responsibilities in relation to the financial statements, which forms an integral part of the Annual Report of the Board of Directors.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

AUDITORS' REPORT

The Auditor General carried out the audit of the Bank in 2019, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the financial statements, together with the necessary data and information, were made available to the Auditor General for examination. The Auditor General's opinion on the financial statements appears on page 108 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of financial statements are given on pages 122 to 134.

DIRECTORS' REMUNERATION

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

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Chairman's Statement (pages 8 to 9), the General Manager/CEO's review (pages 10 to 12) and the Management Discussion and Analysis (pages 25 to 64).

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2019 is contained in the Chairman's statement (pages 8 to 9), the General Manager/CEO's review (pages 10 to 12) and the Management Discussion and Analysis (pages 25 to 64). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank's financial and operational performance is given on the General Manager/ CEO's Review on pages 10 to 12 and in the Financial Highlights on pages 5 to 7.

STATED CAPITAL

The total shareholders' fund as at 31.12.2019 is LKR 15 Bn. The Stated Capital contributed by shareholders at the end of year is LKR 8.05 Bn. and their percentage of shareholding is as follows:

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

INCOME

The gross income of the Bank for 2019 was LKR 27.5 Bn. Details of the income are given in page 136.

TAXATION

The Bank contributed LKR 2,629 Mn. by way of taxes and levies to the Government in 2019. This consisted of LKR 891 Mn. of Income Tax, LKR 1,013 Mn. of Financial Service Value Added Tax, LKR 124 Mn. of NBT and LKR 601 Mn. of Debt Repayment Levy. The Income Tax Rate applicable on the Bank's operations is 28%. It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method.

PROPERTY, PLANT AND EQUIPMENT

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant and Equipment, Leasehold Property and Intangible Assets during the year amounted to LKR 232 Mn. (2018 LKR 414 Mn.), the details of which are given in Notes 24 and 25 of the financial statements on pages 150 to and 158 of this Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

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

OUTSTANDING LITIGATION

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

CAPITAL AND RESERVES

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

	2019 LKR	2018 LKR
Stated capital	8,047,229,930	8,047,229,930
Statutory reserve fund	742,261,195	717,331,468
Special reserve fund	596,651,523	571,721,796
General reserve fund	3,157,644,530	3,057,925,624
Retained earnings	2,421,534,400	2,315,905,812
Total	14,965,321,578	14,710,114,630

DIVIDENDS

A final dividend of LKR 0.50 per share on shares in issue as at 31/12/2018 except share issue to Ministry of Finance on 31/12/2018, amounting to LKR 193,546,847 out of profits for the year 2018 was paid in September 2019. In view of marginal operating results of the year 2019 and the Direction Number 3 of 2020 dated 13/05/2020 of Central Bank of Sri Lanka, the Directors have not approved dividend distribution out of profits for the year 2019.

MERGER WITH FORMER LANKAPUTHRA DEVELOPMENT BANK

In line with the proposal of the Government Budget 2016, former Lankaputhra Development Bank was merged with Pradeshiya Sanwardana Bank with effect from 01/04/2019. The details of which are given in the Note 23 to the financial statements.

BOARD OF DIRECTORS

The Board of Directors comprises 10 Members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 14 to 17 of this Annual Report.

Mr. M Mahinda Saliya	- Chairman
Mr. A K Seneviratne	- Non-Independent/ Non-Executive Director
Mr. K B Wijeyaratne	- Non-Independent/ Non-Executive Director
Mr. M J P Salgado	- Non-Independent/ Non-Executive Director (Till 29.02.2020)
Mr. M A B Silva	- Non-Independent/ Non-Executive Director (Till 04.03.2020)
Mr. M S D Ranasiri	- Independent/ Non-Executive Director
Mr. W M Karunarathne	- Independent/ Non-Executive Director
Prof. H M W Ariyaratne Herath	- Independent/ Non-Executive Director
Dr. Nirmal De Silva	- Independent/ Non-Executive Director
Mr. Lalith Abeysiriwardena	- Independent/ Non-Executive Director

ANNUAL REPORT OF THE BOARD OF DIRECTORS

RESIGNATION OF DIRECTORS

Mr. J T S P Kariyawasam	- Chairman, Resigned from 31.12.2019
Mr. A R Desapriya	- Non-Independent/ Non-Executive Director, Resigned from 31.01.2019
Mr. K B Rajapakse	- Non-Independent/ Non-Executive Director, Term expired from 01.07.2019
Mr. Neil De Alwis	- Independent/ Non-Executive Director, Resigned from 01.04.2019
Mr. K Amarasinghe	- Independent/ Executive Director, Resigned from 01.04.2019
Mr. J R Fernandez	- Independent/ Non-Executive Director, Resigned from 02.12.2019
Mr. S J C Perera	- Independent/ Non-Executive Director, Resigned from 15.12.2019
Mrs. Y M D Warnasuriya	- Independent/ Non-Executive Director, Resigned from 02.12.2019

NEW APPOINTMENT OF DIRECTORS

Director	Appointment Date
Mr. M Mahinda Saliya	27.12.2019 and assumed duties on 01.01.2020
Mr. A K Seneviratne	21.02.2019
Mr. M A B Silva	25.07.2019
Mr. J R Fernandez	21.02.2019
Mr. S J C Perera	04.06.2019
Mrs. Y M D Warnasuriya	12.03.2019

BOARD SUB COMMITTEES

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

BOARD AUDIT COMMITTEE

1. Mr. A K Seneviratne (Chairman of the Committee)
2. Mr. K B Wijeyaratne (appointed on 01.08.2018)
3. Mr. Neil De Alwis (resigned w.e.f. 01.04.2019)
4. Mrs. Y M D Warnasuriya (appointed on 30.05.2019)
5. Mr. S J C Perera (appointed on 06.09.2019)
6. An Audit Superintendent of National Audit Office

Report of the Audit Committee is given on page 95 and forms a part of the Director's Report.

INTEGRATED RISK MANAGEMENT COMMITTEE

1. Mr. K B Rajapakse (Chairman of the Committee, Term expired on 01.07.2019)
2. Mr. K B Wijeyaratne (Chairman of the Committee w.e.f. 08.07.2019)
3. Mr. M J P Salgado
4. Mr. Neil De Alwis (resigned w.e.f. 01.04.2019)
5. Mr. K Amarasinghe (resigned w.e.f. 01.04.2019)
6. Mr. S J C Perera (appointed on 06.09.2019)
7. Mr. M A B Silva (appointed on 02.10.2019)
8. Mr. T A Ariyapala – GM/CEO (retired w.e.f. 30.01.2019)
9. Mr. T Kuhan – acting GM/CEO from 01.02.2019 and as GM/CEO from 01.11.2019
10. Mr. K C D Dharmapriya – AGM – Risk Management
11. Mr. W M S Wickramasinghe – Compliance Officer

Report of the Integrated Risk Management Committee is given on page 100 which forms part of the Directors' Report.

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

1. Mr. J T S P Kariyawasam (Chairman of the Committee)
2. Mr. K B Wijeyaratne (appointed on 12.07.2019)
3. Mr. M J P Salgado (appointed on 30.05.2019)
4. Mr. Neil De Alwis (resigned w.e.f. 01.04.2019)
5. Mr. K Amarasinghe (resigned w.e.f. 01.04.2019)
6. Mrs. Y M D Warnasuriya (appointed on 30.05.2019)
7. Mr. T A Ariyapala - GM/CEO (retired w.e.f. 30.01.2019)
8. Mr. T Kuhan – Acting GM/CEO from 01.02.2019 and as GM/CEO from 01.11.2019
9. Mr. K M J S Karunathilake - Head of HRD and Administration

BOARD IT STEERING COMMITTEE

1. Mr. K B Rajapakse (Chairman of the Committee, Term expired on 01.07.2019)
2. Mr. J R Fernandez (appointed on 30.05.2019, Chairman of the Committee w.e.f. 07.08.2019)
3. Mr. M J P Salgado
4. Mr. M A B Silva (appointed on 02.10.2019)
5. Mr. Neil De Alwis (resigned w.e.f. 01.04.2019)
6. Mr. S J C Perera (appointed on 07.08.2019)
7. Mr. T A Ariyapala - GM/CEO (retired w.e.f. 30.01.2019)
8. Mr. T Kuhan – Acting GM/CEO from 01.02.2019 and as GM/CEO from 01.11.2019
9. Mr. V Jayasinghe – Chief Information Officer
10. Mr. K C D Dharmapriya – AGM – Risk Management

BOARD CREDIT COMMITTEE

1. Mr. J T S P Kariyawasam (Chairman of the Committee)
2. Mr. K B Rajapakse (Term expired on 01.07.2019)
3. Mr. K B Wijeyaratne
4. Mr. M A B Silva (appointed on 02.10.2019)
5. Mr. K Amarasinghe (resigned w.e.f. 01.04.2019)
6. Mr. S J C Perera (appointed on 07.08.2019)
7. Mr. T Kuhan – Acting GM/CEO from 01.02.2019 and as GM/CEO from 01.11.2019

BOARD NOMINATION COMMITTEE

1. Mr. J T S P Kariyawasam (Chairman of the Committee)
2. Mr. K B Wijeyaratne (appointed on 12.07.2019)
3. Mr. M J P Salgado (appointed on 30.05.2019)
4. Mr. Neil De Alwis (resigned w.e.f. 01.04.2019)
5. Mrs. Y M D Warnasuriya (appointed on 30.05.2019)
6. Mr. T Kuhan – Acting GM/CEO from 01.02.2019 and as GM/CEO from 01.11.2019
7. Mr. K M J S Karunathilake - Head of HRD and Administration

DIRECTORS' MEETINGS

The number of Directors' meetings which comprise Board Meetings, Board Audit Committee Meetings, Integrated Risk Management Committee Meetings, Board Human Resource and Remuneration Committee Meetings, Board Nomination Committee Meetings, Board Credit Committee Meetings, Board IT Steering Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page 88 of this Annual Report.

DIRECTORS' INTEREST IN CONTRACTS

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

RELATED PARTY TRANSACTIONS

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

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS

HUMAN RESOURCES

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

OPERATIONAL EXCELLENCE

To increase efficiency and reduce operating cost, the Bank has ongoing initiatives to drive policy and process standardisation and to optimise the use of existing technology platforms.

ENVIRONMENTAL PROTECTION

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

STATUTORY PAYMENTS

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

RISK MANAGEMENT, INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been re-designed to mitigate the risks to which the Bank is exposed to and provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risks are detailed on pages 49 to 64 to this Annual Report.

DIRECTORS' STATEMENT OF INTERNAL CONTROL

The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on page 106. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 104 of this Annual Report.

CORPORATE GOVERNANCE

In the management to the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced / improved from time to time to enhance Risk Management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 67 to 88 for which the Board has obtained a Report of Factual Findings from the Auditor General.

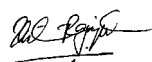
COMPLIANCE WITH LAWS, REGULATIONS AND PRUDENTIAL REQUIREMENTS

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

AUDITORS

The Auditor General carried out the audit of the financial statements of the Bank for the financial year ended 31 December 2019.

By the order of the Board,



Secretary to the Board

BOARD AUDIT COMMITTEE (BAC) REPORT

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provision of the Banking Act Direction No. 12 of 2007 on Corporate Governance for Licensed Specialised Banks in Sri Lanka. Proceedings of BAC are based on the Charter adopted by the Board of Directors for the functioning of the Committee.

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

COMPOSITION OF THE COMMITTEE

The committee contains of the following Non-Executive Directors, who conduct committee proceedings in accordance with the Board Audit Committee Charter approved by the Board of Directors.

1. Mr. A K Seneviratne (Chairman of the Committee)
2. Mr. K B Wijeyaratne
3. Mr. Neil De Alwis (Resigned on 1 April 2019)
4. Mrs. Y M D Warnasuriya (Appointed from 30 May 2019)
5. Mr. S J C Perera (Appointed on 6 September 2019)

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

CHARTER OF THE COMMITTEE

The charter of the BAC approved by the Board clearly defines the Terms of Reference of the Committee. The Committee charter was last reviewed and approved by the Board in April 2019.

DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC is responsible for -

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

MEETINGS

Meetings of the committee are convened quarterly, in accordance with the regulations/guidelines for organisational corporate governance issued by the Central Bank of Sri Lanka. Seven (07) Audit Committee meetings have been held during the financial year ended 31 December 2019.

The quorum for a BAC meeting is three (03) members.

BOARD AUDIT COMMITTEE (BAC) REPORT

Attendance of committee members is as follows:

Name of the committee member	Attendance
Mr. A K Seneviratne	07/07
Mr. K B Wijeyaratne	07/07
Mr. Neil De Alwis	01/01
Mrs. Y M D Warnasuriya	05/05
Mr. S J C Perera	01/03

INTERNAL AUDIT AND INSPECTION

The Committee ensured that the internal audit function is independent function of the Bank. It reviewed the independence of the internal audit functions, adequacy of the scope and resources of the Internal Audit division and satisfied itself that the division had the necessary authority to carry out its works.

According to the Internal Audit plan during the year under review most of the Branches, Information Technology Division, Human Resource Division, Compliance Division, Operation and Bank Support Service Division, Legal Division, Risk Management Division, Four District Offices have been audited by the Internal Audit Department under the supervision and guidance of the Board Audit Committee. At the same time BAC has assisted the Board in ensuring that Annual Financial Statement and Interim Financial Statements have been prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable accounting standards.

The BAC also followed up on corrective measures taken by the management during the year 2018 on matters raised by CBSL Statutory Examination Report and by the Report of National Audit Office issued in terms of Section 13(7) (a) of the Finance act No.38 of 1971 for the year 2018 and Management Letter-2018.

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

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

EXTERNAL AUDIT

The Committee's role relation to the external audit function of the Bank is as follows;

The external audit of the Bank is carried out by the Auditor General in terms of the Constitution of the country. The committee ensured that the external audit is carried out effectively and independently and maintained a continuous report with the representative of the Auditor General in relation to the audit approach and procedure.

SRI LANKA ACCOUNTING STANDARDS

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Bank and made recommendation to the Board. The Committee would continue to monitor the compliance with relevant accounting standards and keep the Board informed at regular intervals.

ACTIVITIES PERFORMED IN YEAR 2019

The committee engaged with following key activities during the year under review.

1. Approved the Annual Audit Plan prepared based on risk profiles of the areas of the Bank for the year 2019.
2. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of section 13 (7) of the Finance Act No.38 of 1971 for the year 2018 and the management responses thereon.
3. Reviewed and discussed issues raised at CBSL Statutory Examinations and monitored the progress of rectification.
4. Reviewed quarterly financial performance of the Bank for the year 2019 and recommended to submit the same to the Board.
5. Periodically review of internal audit reports and the performance of the Internal Audit Department.



A K Seneviratne

Chairman

Board Audit Committee

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE (BHRRC), BOARD NOMINATION COMMITTEE (BNC) REPORT

INTRODUCTION

Regional Development Bank (RDB) is required to establish Board Subcommittees to report directly to the Board of Directors in terms of the corporate governance practices and the directions of Central Bank of Sri Lanka (CBSL) as set out in the Directions 3 (6) issued to Licensed Specialised Banks. In terms of its Section 3 (6) (iii) and (iv). Two separate committees were formed with the composition of the Board of Directors, namely Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC). Responsibilities were assigned to the two committees within the scope defined as per CBSL directions. BHRRC and BNC functioned as two separate committees as per defined Terms of Reference (TOR) with effect from 27 March 2017.

THE SCOPE OF BHRRC INCLUDES

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

THE SCOPE OF BOARD NOMINATION COMMITTEE INCLUDES

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

COMPOSITION AND MEETINGS

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

Ten (10) Board Human Resources and Remuneration Committee meetings and four (4) Board Nomination Committee meetings were held during the year ended 31 December 2019.

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

The Secretary to these Committees is the Secretary to the Board.

Division or Unit heads are invited for opinions on their respective functions as and when required.

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

The quorum for a meeting of each committee shall be two Independent Non-Executive Directors. The committee shall meet at least quarterly. The committee members were changed during the year and attendance details are as follows:

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE MEMBERS

Name	Attended/eligibility
Mr. J T S P Kariyawasam – Chairman	10/10
Mr. K B Wijeyaratne – Director (Appointed w.e.f. 12 July 2019)	03/03
Mr. M J P Salgado – Director (Appointed w.e.f. 30 May 2019)	04/04
Mr. Neil De Alwis – Director (Resigned w.e.f. 1 April, 2019)	06/06
Mrs. Y M D Warnasuriya - Director (Appointed w.e.f. 30 May 2019)	04/04
Mr. K Amarasinghe – Executive Director (Resigned w.e.f. 1 April 2019)	06/06
Mr. T Kuhan – General Manager/CEO	
Mr. K M J S Karunathilaka – Head of HRD and Administration	
Mrs. R M T Rajapakse – Board Secretary	

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE (BHRRC), BOARD NOMINATION COMMITTEE (BNC) REPORT

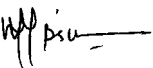
BOARD NOMINATION COMMITTEE MEMBERS

Name	Attended/ eligibility
Mr. J T S P Kariyawasam – Chairman	04/04
Mr. K B Wijeyaratne – Director (Appointed w.e.f. 12 July 2019)	02/02
Mr. M J P Salgado – Director (Appointed w.e.f. 30 May 2019)	03/03
Mr. Neil De Alwis – Director (Resigned w.e.f. 1 April 2019)	01/01
Mrs. Y M D Warnasuriya - Director (Appointed w.e.f. 30 May 2019)	02/03
Mrs. R M T Rajapakse – Board Secretary	

SUMMARY OF ACTIVITIES

In May 2019, the Board considered the need for reconstitution of the two committees in view of the resignation of Mr. K Amarasinghe, Executive Director who was a member of the BNC and Mr. Neil De Alwis, Director who was a member of the BNC and the BHRRC. Accordingly, with the appointment of Mr. K B Wijeyaratne – Director, Mr. M J P Salgado – Director and Mrs. Y M D Warnasuriya – Director, they were appointed as the members of BNC and BHRRC.

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



Dr. Nirmal De Silva

Chairman

Board Human Resources and Remuneration Committee
Board Nomination Committee

BOARD IT STEERING COMMITTEE (BITSC) REPORT

SCOPE

The BITSC has been established to ensure the degree of reliance on Information and Communication Technology and to assist the Bank with the growing demands on IT Governance.

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

COMPOSITION OF THE BITSC COMMITTEE :

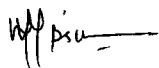
The BITSC approved by the Board of Directors of the Regional Development Bank (RDB) comprises of the following Members.

MEMBERS OF THE COMMITTEE :

- Mr. K B Rajapakse – Chairman of the Committee / Director (Term expired on 01.07.2019)
- Mr. J R Fernandez – Chairman of the Committee / Director (w.e.f. 07.08.2019)
- Mr. M J P Salgado – Member / Director
- Mr. M A B Silva – Member / Director (appointed on 02.10.2019)
- Mr. Neil De Alwis – Member / Director (resigned w.e.f. 01.04.2019)
- Mr. S J C Perera – Member / Director (appointed on 07.08.2019)

General Manager / Chief Executive Officer, Deputy General Manager – IT / Chief Information Officer, Chief Risk Officer are Members of the Corporate management who attend to these BITSC meetings as invitees. Any Officers of the Bank can also attend to the meeting on invitation.

The quorum of the meeting of BITSC is two Members. BITSC has conducted three meetings during the year 2019 thus meeting the Regulatory requirements.



Dr. Nirmal De Silva

Chairman

Board IT Steering Committee (BITSC)

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

COMPOSITION OF THE COMMITTEE

During the year under review the Integrated Risk Management Committee (IRMC) consist of the following seven Non-Executive Directors, whose profiles are given on page 14 to 17.

Under each name include whether the Directors is Executive or Non-Executive.

1. Mr. K B Rajapakse - (Chairman of the Committee / Non-Executive Director, Term expired on 01.07.2019)
2. Mr. K B Wijeyaratne (Chairman of the Committee / Non-Executive Director w.e.f. 08.07.2019)
3. Mr. M J P Salgado – Member / Non-Executive Director
4. Mr. Neil De Alwis - Member / Non-Executive Director (resigned w.e.f. 01.04.2019)
5. Mr. K Amarasinghe - Member / Executive Director (resigned w.e.f. 01.04.2019)
6. Mr. S J C Perera - Member / Non-Executive Director (appointed on 06.09.2019)
7. Mr. M A B Silva - Member / Non-Executive Director (appointed on 02.10.2019)

REGULAR ATTENDANTS ON

Chief Executive Officer (CEO), Chief Risk Officer (CRO) and Compliance Officer attended the meetings on regular basis during the year 2019.

SECRETARY TO THE COMMITTEE

The Secretary to the Board is also the Secretary to the Committee.

IRMC meets on a quarterly basis however based on the needs, meetings are being fixed accordingly. During the year 2019, RDB convened four meetings and minimum quorum of the Committee is two Non-Executive Directors, CEO and CRO as per the charter of the IRMC.

The Committee meets on a quarterly basis as per the Charter. However, additional meetings are convened based on the requirement. During the year 2019, the Committee has met only four times.

Attendances of the Committee Members are given in the following table.

MEETINGS

Name of the Committee member	Eligibility to attend/ Attended
Mr. K B Rajapakse	03/03
Mr. K B Wijeyaratne	04/04
Mr. M J P Salgado	04/04
Mr. Neil De Alwis	01/01
Mr. K Amarasinghe	01/01
Mr. S J C Perera	01/01
Mr. M A B Silva	00/00

TERMS OF REFERENCE OF THE COMMITTEE

The IRMC has been established by the Board of Directors, in compliance with the Banking Act Direction No. 12 of 2007, on "Corporate Governance for Licensed Specialised Banks in Sri Lanka", issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988.

The Terms of Reference set out by the Board of Directors, includes the following:

1. Ensure that the Bank has a comprehensive Risk Management framework, appropriate compliance and system in place.
2. To access all risk types, including but not limited to: credit, liquidity, operational and strategic reputational risks to the Bank appropriate risk indicators and management information.
3. To ensure that risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk taken beyond the risk tolerance set by the committee, on the basis of the Bank's policies and regulatory and supervisory requirements.
4. Monitor and access the effectiveness of the Bank's Risk Management System and the robustness of the Risk Management function.
5. Periodically assess performance against internally defined risk appetite.

6. Review the Bank's compliance report and action taken in relation to report.
7. Review issues related to integrated Risk Management framework.
8. To review progress on Basel III road map implementation and regulatory guidelines.
6. Approved and adopted the action plan of the Risk Management Department.
7. Reviewed all minutes of the management level committees. (Operational Risk Management Subcommittee, Management Committee, Assets and liability Management Committee ,Operations premises committee).

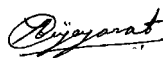
ACTIVITIES DURING THE YEAR 2019

Activities carried out by the Committee during the year under review are summarised below:

1. Reviewed and recommended the following policies
Credit Risk Management Policy.
Operational Risk Management Policy.
Liquidity Risk Management Policy.
Interest Rate Risk Management Policy.
Stress Testing Policy.
Integrated Risk Management Framework.
Market Risk Management Policy.
Loan Review Policy.
2. Monitored and reviewed the sectorial limits of the loan portfolio of the bank which have gone beyond their approved limits and made recommendations for the adjustments.
3. Reviewed the comprehensive Compliance Reports submitted by the Compliance Officer to assess the extent of compliance with the regulatory requirements.
4. Monitored the overall Key Risk Indicators of the Bank.
5. Recommended and reviewing the Acceptable usage policy and Information security policy to smooth functioning of Information Security and IT risk related issues.

REPORTING

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



Chairman
Integrated Risk Management Committee

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of the Pradeshiya Sanwardana Bank as at 31 December 2019 are prepared and presented in compliance with the following regulatory requirements:

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

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

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

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

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

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

The Financial Statements of the Bank was audited by Auditor General's Department. The Report issued by Auditor General is available on pages 108 to 112 of the Annual Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 95 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee at the Audit Committee Meeting to discuss any matter of substance.

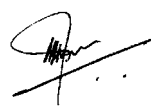
We confirm to the best of our knowledge that:

The Bank has complied with all applicable laws, rules, regulations and guidelines;

There is no material non-compliance;

There is no material litigation against the Bank other than those disclosed in Note 38.2 of the Financial Statements section of the Annual Report;

All taxes, duties, levies and all statutory payments by the Bank and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Bank as at the reporting date have been paid, or where relevant provided for.



T Kuhan
General Manager/CEO



P S Edirisuriya
Chief Financial Officer

29 May 2020

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

This statement of the Board of Directors sets out the responsibilities of the Directors relating to the Financial Reporting framework of the Bank. The responsibilities of the Auditors in relation to the Financial Statements are set out in the Report of the Auditors on page 108 of the Annual Report.

FINANCIAL STATEMENTS

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

The Directors acknowledge that in the preparation of Financial Statements for the ended 31 December 2019, presented in the Annual Report, the most appropriate accounting policies have been used, applied consistently and adequately disclosed. Reasonable and prudent judgements have been made where necessary in order to ensure the proper reflection of the form and substance of transaction in the process of preparing Financial Statements.

The Financial Statements for the year ended 31 December 2019 are in conformity with the requirements of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and amendments thereto, Sri Lanka Accounting Standards and other statutory / regulatory requirements. These Financial Statements reflects true and fair view of the state of affairs of the bank as at 31 December 2019.

GOING CONCERN

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

INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE

The Directors are also responsible for the system of internal financial controls and risk management and paying significant attention on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst

emphasizing inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls. A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on page 106 of the Annual Report.

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

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

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and Risk Management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on page 95 and 100 respectively of the Annual Report.

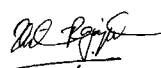
The Auditor General has been made available with all records of the Bank including the Financial Statements by the Board of Directors and been provided every opportunity to undertake the inspections they considered appropriate.

COMPLIANCE

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

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

By order of the Board,



Secretary to the Board

28 May 2020

AUDITOR GENERAL’S REPORT ON THE STATEMENT OF INTERNAL CONTROL



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல.
My No. }

BAF/F/RDB/IC/2019

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உமது இல.
Your No. }

දිනය
திகதி
Date } 12 June 2020

The Chairman,
Pradeshiya Sanwardana Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors’ Statement on Internal Control over Financial Reporting of Pradeshiya Sanwardana Bank

Introduction

This report is to provide assurance on the Directors’ Statement on Internal Control over Financial Reporting (“Statement”) of Pradeshiya Sanwardana Bank included in the annual report for the year ended 31 December 2019.

Management’s responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the “Guidance for Directors of Banks on the Directors’ Statement on Internal Control” issued in compliance with the Section 3(8) (ii) (b) of the Banking Act Direction No. 12 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My responsibility and compliance with SLSAE 3050 (Revised)

My responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Pradeshiya Sanwardana Bank.

I conducted this engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors’ Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

This Standard requires that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

අංක 306/72, පොල්වෙල පාර, පොත්තරමුල්ල, ශ්‍රී ලංකාව



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

Summary of work performed

I conducted my engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflect the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Bank.

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

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

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

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the Annual Report is inconsistent with my understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over financial reporting of the Bank.



W.P.C. Wickramaratne
 Auditor General

DIRECTORS' STATEMENT ON INTERNAL CONTROL

REQUIREMENT

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

RESPONSIBILITY

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

BOARD REVIEW PROCESS

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

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

KEY FEATURES OF THE PROCESS

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

- Board sub committees of Audit, Credit and Integrated Risk Management have been established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Board has approved an Operational Manual in related to the Financial and other controls of the Bank in its all transactions. The procedures laid down in the manual have been communicated to all members of the staff.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures

and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report.

- The Annual Audit Plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at the periodic meetings.
- The Audit Committee of the Bank review internal control issues identified by the Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Risk Management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.
- The bank adopted the new Sri Lanka Accounting Standards SLFRS - 9, Financial Instruments in 2018 and SLFRS - 16, leases in 2019. The process and procedures initially applied to adopt the aforementioned accounting standards to be further strengthened based on the feedback from external Auditors, regulators and the Board Audit Committee. The bank will continue to further strengthen the process on impairment of Loans and Advances, Financial statement disclosures and Risk Management.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

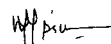
The External Auditors have reviewed the above Directors' statement on internal control for the year ended 31 December 2019 and are supposed to report to the Board whether anything has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.



Chairman – Audit Committee



Director



Director

28 May 2020

FINANCIAL REPORTS

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117	Statement of Changes in Equity
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AUDITOR GENERAL'S REPORT



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல.
My No.

BAF/F/RDB/1/19/18

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உமது இல.
Your No.

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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.

අංක 306/72, පොල්දොළ පාර, පොල්දොළ, පුරාණමුල්ල, ශ්‍රී ලංකාව



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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

How my audit addressed the key audit matter

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.

AUDITOR GENERAL’S REPORT



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.

AUDITOR GENERAL’S REPORT



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. Wickramaratne
Auditor General

INCOME STATEMENT

For the year ended 31 December	Note	2019 LKR	2018 LKR
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 amortisation 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 and 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 118 to 194. The Report of the Auditors is given on page 108.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	2019 LKR	2018 LKR
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 118 to 194. The Report of the Auditors is given on page 108.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2019 LKR	2018 LKR
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 and 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 118 to 194. The Report of the Auditors is given on page 108.

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

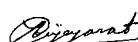


T Kuhan
General Manager/CEO

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



Chairman/Director



Director

29 May 2020
Colombo

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2019 LKR	2018 LKR
Cash flows 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 and cash equivalents		24,945,723,949	(4,348,266,457)
Cash and cash equivalents at the beginning of the year		9,639,016,719	13,987,283,176
Cash and cash equivalents at the end of the year		34,584,740,669	9,639,016,719
Reconciliation of cash and cash equivalents			
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

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 118 to 194. The Report of the Auditors is given on page 108.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December	Stated Capital Note 34 LKR	Statutory Reserve Fund Note 35 LKR	Special Reserve Fund Note 37 LKR	General Reserve Fund Note 37 LKR	Retained Earnings Note 36 LKR	Total LKR
Balance as at 1 January 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 SLFRS 09 as at 1 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, recognised directly in equity						
Issued stated capital	4,176,292,999	-	-	-	-	4,176,292,999
Transferred to statutory reserve fund	-	53,679,318	-	-	(53,679,318)	-
Transferred to special reserve fund	-	-	53,679,318	-	(53,679,318)	-
Transferred to general reserve fund	-	-	-	214,717,272	(214,717,272)	-
Transactions with equity holders, recognised directly in equity	4,176,292,999	53,679,318	53,679,318	214,717,272	(322,075,908)	4,176,292,999
Balance as at 31 December 2018	8,047,229,930	717,331,468	571,721,796	3,057,925,624	2,315,905,812	14,710,114,630
Balance as at 1 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, recognised directly in equity						
Issued stated capital	-	-	-	-	-	-
Dividend 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, recognised directly in equity	-	24,929,727	24,929,727	99,718,906	(312,497,577)	(162,919,217)
Balance as at 31 December 2019	8,047,229,930	742,261,195	596,651,523	3,157,644,530	2,421,534,400	14,965,321,578

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 118 to 194. The Report of the Auditors is given on page 108.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 GENERAL

Pradeshiya Sanwardana Bank can be traced back to as far as 1985 when district level banks under the category of Regional Rural Development Banks were established. Later in 1997, seventeen such Regional Development Banks were merged into six provincial level banks, which functioned as Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. In May 2010, these six banks were merged into one national level bank and designated as the Pradeshiya Sanwardana Bank. The Bank was established as a statutory body under the Pradeshiya Sanwardana 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 Lankaputhra 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 3,469 (3,381 as 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 DIRECTORS' 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 authorised 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 recognised 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 Mn. were recognised and presented in the statement of financial position within "Right of use assets".
- Additional lease liabilities of LKR 998 Mn. (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.

NOTES TO THE FINANCIAL STATEMENTS

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 Sanwardana Banking Act No: 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardana Banking Act No: 41 of 2008 and amendments thereto.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements of the Bank are presented in Sri Lanka Rupees, which is the currency of the primary economic environment in which Pradeshiya Sanwardana Bank operates. Financial information presented in Sri 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 AND 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 STATEMENT OF CASH FLOWS

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 wherever 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 recognised 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, PLANT 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.

NOTES TO THE FINANCIAL STATEMENTS

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 recognised 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 minimise the effect of use of unobservable inputs.

3. ACCOUNTING POLICY AND STANDARD INTERPRETATION

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1.1 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND MEASUREMENT

3.1.1.1 DATE OF RECOGNITION

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

3.1.1.2 INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

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

3.1.1.3 DAY 1 PROFIT OR LOSS

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

3.1.1.4 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:

- Amortised 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 AMORTISED COST

The Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

3.1.1.4.1.1(A) BUSINESS MODEL ASSESSMENT

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

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

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

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

3.1.1.4.1.1(B) THE SPPI TEST

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and Credit Risk. To make the SPPI assessment, the Bank applies 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 minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 recognised in the income statement as net trading gain/(loss) when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.1.1.4.2 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 into 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.

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

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

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

If the modification does not result in cash flows that are substantially different, the modification does not result in 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 derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also de-recognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset
- Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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 recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

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

3.1.1.6.2(B) FINANCIAL LIABILITIES

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained below. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's Credit Risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

- Stage 1 : When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the Credit Risk has improved and the loan has been reclassified from Stage 2.
- Stage 2 : When a loan has shown a significant increase in Credit Risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the Credit Risk has improved and the loan has been reclassified from Stage 3.
- Stage 3 : Loans considered credit-impaired. The Bank records an allowance for the LTECLs.
- POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. The Bank does not have any POCI assets as of the reporting date.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) 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 flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

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

EAD : The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, 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 realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

The mechanics of the ECL method are summarised below:

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

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

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

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

Financial Guarantee contracts:

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

NOTES TO THE FINANCIAL STATEMENTS

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 recognised are not included in a collective assessment of impairment.

If the asset is impaired the amount of the loss measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses 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 recognised through the unwinding of the discount.

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

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

3.1.1.7.3 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 amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the income statement. The accumulated loss recognised in OCI is recycled to the profit and loss upon 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 recognises 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 as 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-recognised, the Bank also reassesses whether there has been a significant increase in Credit Risk, as set out in Note 46.2. The Bank also considers whether the assets should be classified as Stage 3.

3.1.1.7.10 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 recognised as a provision for loan losses in the income statement during the year of acquiring the said property in satisfaction of debt.

3.1.1.7.11 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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

3.1.1.8 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.

NOTES TO THE FINANCIAL STATEMENTS

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, PLANT AND EQUIPMENT

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

Items of PPE are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates. The depreciation is recognised in the income statement on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use. Land is not depreciated. The estimated useful lives are as follows:

Building	5% Per annum
Computer Equipment	20% Per annum
Office Equipment	20% Per annum
Motor Vehicles	20% Per annum
Furniture	15% Per annum
Iron Safes	10% Per annum
Partition and fittings	20% Per annum

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

The carrying amount of an item of PPE is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income/expense in the income statement in the year the asset is derecognised.

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

3.1.3 LEASING

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the 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 capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

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

3.1.3.2 OPERATING LEASES (BEFORE 1 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 recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

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

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

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

- Computer software 3 years

3.1.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

3.1.6 FINANCIAL GUARANTEES

"Financial guarantees" are contracts that require the Bank to make specific payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of the debt instrument. "Loan commitments" are firm commitments to provide credit under pre-specified terms and conditions.

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

3.1.7 PENSION BENEFITS

3.1.7.1 DEFINED BENEFIT PENSION PLAN-GRATUITY

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

3.1.7.2 GRATUITY

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

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31 December 2019 by Actuarial and Management Consultants (Pvt) Ltd, a qualified actuary using the projected unit credit method.

Recognition of Actuarial gains and losses: The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Funding Arrangements: The Gratuity liability is not externally funded.

3.1.7.3 DEFINED CONTRIBUTION PENSION PLAN

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Employees' Provident Fund

The Bank and Employees contribute to the Employees Provident Fund at 15% and 10% respectively.

2. Employees' Trust Fund

The Bank contributes to the Employees' Trust Fund at 3%.

3.1.8 PROVISIONS

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

3.1.9 RECOGNITION OF INCOME AND EXPENSES

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

3.1.9.1 INTEREST AND SIMILAR INCOME AND EXPENSE

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities. However, for a reclassified financial asset (Refer Note 3.1.1.5) for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.1.9.2 FEES AND COMMISSION INCOME

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

3.1.9.3 FEE INCOME EARNED FROM SERVICES THAT ARE PROVIDED OVER A CERTAIN PERIOD OF TIME

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

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

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

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

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

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

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

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

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

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

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

3.1.9.7 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 01 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 recognised at the same time as the liability to pay the related dividend is recognised.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

3.1.11 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 recognise revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as discussed.

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

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

NOTES TO THE FINANCIAL STATEMENTS

5. GROSS INCOME

For the year ended 31 December	2019 LKR	2018 LKR
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

For the year ended 31 December	2019 LKR	2018 LKR
Placements with banks	735,270,427	494,336,946
Financial assets at amortised cost		
Loans and receivables from other customers	21,735,964,322	21,016,590,253
Debt and 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

For the year ended 31 December	2019 LKR	2018 LKR
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

For the year ended 31 December	2019 LKR	2018 LKR
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)

For the year ended 31 December	2019 LKR	2018 LKR
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)

For the year ended 31 December	2019 LKR	2018 LKR
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

NOTES TO THE FINANCIAL STATEMENTS

10. IMPAIRMENT CHARGES

For the year ended 31 December	2019 LKR	2018 LKR
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 and other instruments		
Debentures (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

For the year ended 31 December	2019 LKR	2018 LKR
Salary and bonus	3,670,368,673	3,612,325,825
Contributions to EPF/ETF	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

For the year ended 31 December	2019 LKR	2018 LKR
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
Computerisation 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 AND DEBT REPAYMENT LEVY

For the year ended 31 December	2019 LKR	2018 LKR
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

For the year ended 31 December	2019 LKR	2018 LKR
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 31 December	2019 LKR	2018 LKR
Profit/(Loss) before tax	1,222,160,409	2,103,081,891
(Less): Dividend	(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%

NOTES TO THE FINANCIAL STATEMENTS

15. EARNINGS PER SHARE

15.1 In accordance with the Sri Lanka Accounting Standard - LKAS 33 "Earnings per share", basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholder of the Bank (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

For the year ended 31 December	2019 LKR	2018 LKR
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

For the year ended 31 December	2019 Numbers	2018 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 31 December	Note	FVTPL LKR	AC LKR	FVOCI LKR	Total LKR
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 and 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 31 December	Note	Amortised cost	Total
		LKR	LKR
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 31 December	Note	FVTPL	AC	FVOCI	Total
		LKR	LKR	LKR	LKR
ASSETS					
Cash and cash equivalent	17	-	689,184,136	-	689,184,136
Placements with banks	18	-	6,496,628,053	-	6,496,628,053
Financial assets held-for-trading/Equity instruments at fair value through profit or loss	19	115,600	-	-	115,600
Financial assets at amortised cost - Loans and receivables from other customers	20	-	133,432,804,004	-	133,432,804,004
Financial assets at amortised cost - Debt and 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 31 December	Note	Amortised cost	Total
		LKR	LKR
LIABILITIES			
Due to banks	28	11,098,334,822	11,098,334,822
Due to other customers	29	141,559,973,557	141,559,973,557
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Other liabilities	32	1,797,328,111	1,797,328,111
Total financial liabilities		159,163,489,025	159,163,489,025

NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND CASH EQUIVALENT

As at 31 December	2019 LKR	2018 LKR
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

As at 31 December	2019 LKR	2018 LKR
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

As at 31 December 2019	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
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 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Money market placements	6,496,692,932	-	-	6,496,692,932
Impairment for expected credit losses (18.2)	(64,879)	-	-	(64,879)
	6,496,628,053	-	-	6,496,628,053

18.2 IMPAIRMENT FOR EXPECTED CREDIT LOSSES - PLACEMENTS WITH BANKS

For the year ended 31 December	2019 LKR	2018 LKR
Balance as at 1 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 LKR	Market Value LKR	No. of Shares	Cost of Investment LKR	Market Value LKR
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

As at 31 December	2019 LKR	2018 LKR
Balance as at 1 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 31 December	2019 LKR	2018 LKR
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

NOTES TO THE FINANCIAL STATEMENTS

20.1 ANALYSIS

As at 31 December	2019 LKR	2018 LKR
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

20.2 IMPAIRMENT FOR CREDIT LOSSES - LOANS TO AND RECEIVABLES FROM OTHER CUSTOMERS

	Individual	Collective	Total
Balance as at 1 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 1 January 2018	-	124,902,103	124,902,103
Balance as at 1 January 2018 (SLFRS 9)	173,823,262	1,915,354,877	2,089,178,139
Net charge to profit or loss	144,614,042	1,265,040,780	1,409,654,822
Write off during the period	-	(860,361)	(860,361)
Other movements	-	145,063	145,063
Balance as at 31 December 2018	318,437,304	3,179,680,360	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 01.04.2019	-	1,801,375,047	1,801,375,047
Balance as at 31 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 1 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 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 31 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 1 January 2018	734,045,039	1,029,494,477	843,681,100	2,607,220,617
Write off during the period	-	-	(860,361)	(860,361)
Other movements	-	-	145,063	145,063
Net charge to profit or loss	282,206,799	(100,701,284)	710,106,830	891,612,344
Balance as at 31 December 2018	1,016,251,838	928,793,193	1,553,072,633	3,498,117,664

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 and 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 and 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

NOTES TO THE FINANCIAL STATEMENTS

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 and receivable from other customers	104,453,906,475	25,710,178,835	7,605,598,053	137,769,683,363
Impairment for expected credit losses (20.3)	(1,016,251,838)	(928,793,193)	(1,553,072,633)	(3,498,117,664)
Net loans to and receivable from other customers (before zero rated loan and staff loan adjustments)	103,437,654,637	24,781,385,642	6,052,525,420	134,271,565,699

21. FINANCIAL INVESTMENTS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

As at 31 December	2019 LKR	2018 LKR
Debentures - Quoted (Note 21.1)	516,934,932	516,934,932
Government debt securities - Treasury bills and 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

21.1 DEBENTURES- QUOTED

	2019			2018		
	No. of Debentures	Cost of Investment LKR	Amortised Cost LKR	No. of Debentures	Cost of Investment LKR	Amortised Cost LKR
Commercial Bank of Ceylon PLC	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,934,932
Total	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,934,932

21.1.1 ANALYSIS OF DEBENTURES BASED ON EXPOSURE TO CREDIT RISK

As at 31 December 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

21.1.2 IMPAIRMENT FOR EXPECTED CREDIT LOSSES- DEBENTURES QUOTED

As at 31 December	2019 LKR	2018 LKR
Balance as at 1 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 31 December	2019 LKR	2018 LKR
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

NOTES TO THE FINANCIAL STATEMENTS

21.2.2 IMPAIRMENT FOR EXPECTED CREDIT LOSSES – INVESTMENT IN FIXED DEPOSITS

As at 31 December	2019 LKR	2018 LKR
Balance as at 1 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 31 December	2019 LKR	2018 LKR
Unquoted equity securities (22.1)	2,289,919	4,176,342,999
	2,289,919	4,176,342,999

22.1 UNQUOTED EQUITY SECURITIES

As at 31 December	2019			2018		
	No. of Shares	Cost of Investment LKR	Market Value LKR	No. of Shares	Cost of Investment LKR	Market Value LKR
CRIB	1,821	2,289,919	2,289,919	600	60,000	60,000
Lankaputhra Development Bank	-	-	-	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 1 April 2019. Therefore the investments in shares of Lankaputhra Development Bank has netted off with the equity stake in Lankaputhra Development Bank as of 01 April 2019 (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 thereby proposing Lankaputhra Development Bank Limited (LDB) to be merged with Pradeshiya Sanwardana Bank (PSB) and upon 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 LKR 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 10 January 2019, to go ahead with the merger of LDB with PSB at a purchase consideration of LKR 4,176 Mn. subject to any further upward revisions depend on future circumstances.

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

The carrying amounts of the identifiable assets and liabilities of the LDB as on 1 April 2019 which is the merger date is as follows:

As at 31 December	01-Apr-19 LKR
Assets	
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
Total	8,500,118,385
Liabilities	
Deposit liabilities	276,021,101
Interest bearing loans and 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
Total	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)
Resulting excess	(67,372,297)

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

NOTES TO THE FINANCIAL STATEMENTS

24. PROPERTY, PLANT AND EQUIPMENT

24.1 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings LKR	Computer Hardware LKR	Office Equipment, Furniture and Fittings LKR
2019 (Current year) Cost			
Opening balance at 01.01.2019	535,458,100	569,273,145	1,166,453,070
Merged of LDB balances as at 01.04.2019	33,034,049	74,690,361	90,748,602
Additions	9,054,154	84,775,603	80,616,960
Disposals	-	(3,534,454)	(10,369,704)
Written off	-	-	(403,581)
Transfers during the year	64,270,921	-	-
Reclassification adjustments	-	-	531,750
Closing balance at 31.12.2019	641,817,225	725,204,656	1,327,577,095
Finance lease			
Opening balance at 01.01.2019	-	-	-
Additions	-	-	-
Transfer	-	-	-
Closing balance at 31.12.2019	-	-	-
(Less): Accumulated depreciation			
Opening balance at 01.01.2019	126,018,162	402,426,641	745,865,596
Merged of LDB balances at 01.04.2019	13,887,672	60,302,792	69,714,923
Charge for the year	24,077,155	67,148,351	136,156,906
Disposals	-	(3,523,528)	(9,951,017)
Transfers during the year	-	-	-
Reclassification adjustments	-	-	-
Closing balance at 31.12.2019	163,982,989	526,354,256	941,786,408
Finance lease			
Opening balance at 01.01.2019	-	-	-
Charge for the year	-	-	-
Transfers during the year	-	-	-
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

2019

Motor Vehicles	Work-In- Progress	Partition and Fittings	Other	Total
LKR	LKR	LKR	LKR	LKR
273,290,358	65,310,013	323,427,662	-	2,933,212,347
34,159,860	-	19,815,041	819,424	253,267,338
-	820,184	42,587,800	-	217,854,701
(1,982,206)	-	(91,121)	-	(15,977,485)
-	-	-	-	(403,581)
103,924,400	(64,270,921)	-	-	103,924,400
-	-	(538,092)	-	(6,342)
409,392,411	1,859,276	385,201,289	819,424	3,491,871,377
103,924,400	-	-	-	103,924,400
-	-	-	-	-
(103,924,400)	-	-	-	(103,924,400)
-	-	-	-	-
217,479,645	-	167,973,678	-	1,659,763,721
32,621,194	-	10,325,452	-	186,852,032
29,677,681	-	71,391,618	-	328,451,710
(1,971,005)	-	(89,426)	-	(15,534,976)
103,924,385	-	-	-	103,924,385
-	-	(5,391)	-	(5,391)
381,731,899	-	249,595,931	-	2,263,451,483
101,587,422	-	-	-	101,587,422
2,336,963	-	-	-	2,336,963
(103,924,385)	-	-	-	(103,924,385)
-	-	-	-	-
-	-	-	-	-
27,660,512	1,859,276	135,605,359	-	1,228,419,894

NOTES TO THE FINANCIAL STATEMENTS

	Land and Buildings LKR	Computer Hardware LKR	Office Equipment, Furniture and Fittings LKR
2018 (Previous year) Cost			
Opening balance at 01.01.2018	474,820,077	564,054,457	1,008,650,979
Additions	27,416,967	56,376,187	169,561,538
Disposals	-	(51,157,499)	(12,849,083)
Transfers during the year	33,221,056	-	-
Reclassification adjustments	-	-	1,089,635
Closing balance at 31.12.2018	535,458,100	569,273,145	1,166,453,070
Finance lease			
Opening balance at 01.01.2018	-	-	-
Additions	-	-	-
Closing balance at 31.12.2018	-	-	-
(Less): Accumulated depreciation			
Opening balance at 01.01.2018	106,741,385	393,426,867	646,932,934
Charge for the year	19,276,777	59,727,877	111,475,598
Disposals	-	(50,728,103)	(12,532,945)
Reclassification adjustments	-	-	(9,991)
Closing balance at 31.12.2018	126,018,162	402,426,641	745,865,596
Finance lease			
Opening balance at 01.01.2018	-	-	-
Charge for the year	-	-	-
Closing balance at 31.12.2018	-	-	-
(Less): Impairment charges	-	-	-
Net book value at 31.12.2018	409,439,938	166,846,504	420,587,473

24.2 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

A class-wise analysis of the initial cost of fully depreciated property, plant and equipment of the Bank which are still in use as at reporting date is as follows.

As at 31 December	2019 LKR	2018 LKR
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 and fittings	86,726,907	5,152,049
	1,102,982,122	1,286,464,835

2018

Motor Vehicles	Work-In- Progress	Partition and Fittings	Total
LKR	LKR	LKR	LKR
279,615,973	56,423,650	257,691,416	2,641,256,552
-	42,107,419	67,559,345	363,021,456
(6,325,615)	-	(733,464)	(71,065,661)
-	(33,221,056)	-	-
-	-	(1,089,635)	-
273,290,358	65,310,013	323,427,662	2,933,212,347
103,924,400	-	-	103,924,400
-	-	-	-
103,924,400	-	-	103,924,400
192,391,406	-	113,311,500	1,452,804,092
31,413,844	-	55,337,781	277,231,877
(6,325,605)	-	(675,603)	(70,262,256)
-	-	-	(9,991)
217,479,645	-	167,973,678	1,659,763,722
87,484,026	-	-	87,484,026
14,103,396	-	-	14,103,396
101,587,422	-	-	101,587,422
-	-	-	-
58,147,691	65,310,013	155,453,984	1,275,785,603

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 or given up.

24.6 TEMPORALLY IDLE PROPERTY, PLANT AND EQUIPMENT

There were no temporally idle property, plant and equipment as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

24.7 THE DETAILS OF FREEHOLD LAND AND BUILDINGS HELD BY THE BANK AS AT 31 DECEMBER 2019 ARE AS FOLLOWS:

Name of Premises and Address	Extent (Perches)	Building (Square Feet)	Date of Valuation
Central Province			
Matale - No. 62, Main Street, Matale	4.8	2,280	26 December 2014
Dambulla - No. 734, Anuradhapura Road, Dambulla	8.2	2,210	18 December 2003
Galewela - Dambulla Road, Galewela	8.7	2,380	1 March 2008
Wilgamuwa - Hettipola, Wilgamuwa	38.0	1,740	24 August 2009
Agarapathana - No. 158, Hoolbrook, Agarapathana	10.8	1,598	17 August 2012
Naula - 26, Dambulla Road, Naula	20.0	1,640	25 February 1998
Laggala - New Town - Laggala	40.0	3,261	
North Central Province			
Mihinthale - Trincomalee Road, Mihinthale	20.0	6,359	30 December 2005
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	19 March 2013
Galenbindunuwewa - Pola Road, Galenbidunuwewa	70.0	1,687	14 March 2013
Medirigiriya - Main Street, Medirigiriya	40.0	-	31 December 2007
Siripura - New Town, Siripura	30.0	4,973	24 February 2016
Thirappane - Kandy Road, Thirappane	65.4	8,030	8 December 2016
Anuradhapura - No. 343, Mosque Road, Stage 01			
North Western Province			
Mawathagama - Kandy Road, Mawathagama	21.5	-	3 March, 2016
P/O Kurunegala - No. 155, Negombo Road, Kurunegala	14.0	8,484	29 December 2004
Polpithigama - Kurunegala Road, Polpithigama	20.0	2,784	30 December 2014
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	30 December 2014
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	25 March 2003
Nattandiya - Marawila Road, Nattandiya	15.7	1,200	11 February 2003
Puttalam - Kurunegala Road, Puttalam	51.0	1,250	26 June 2006
Wariyapola - No. 29/4, Adhikari Mawatha, Wariyapola	10.0	6,208	12 November 2013

	Cost of Land	Cost of Building	Total Value	Accumulated Depreciation	Written Down Value
	LKR	LKR	LKR	LKR	LKR
	-	11,915,631	11,915,631	2,987,069	8,928,562
	-	2,851,908	2,851,908	1,972,458	879,450
	-	6,540,518	6,540,518	3,869,817	2,670,702
	-	7,581,277	7,581,277	4,523,013	3,058,264
	-	1,260,000	1,260,000	636,000	624,000
	-	11,257,600	11,257,600	2,333,959	8,923,641
	-	23,565,250	23,565,250	694,045	22,871,205
	-	8,859,427	8,859,427	6,193,429	2,665,998
	-	16,192,223	16,192,223	5,667,278	10,524,945
	-	3,124,975	3,124,975	1,747,079	1,377,896
	-	9,643,650	9,643,650	5,794,833	3,848,817
	-	22,291,625	22,291,625	4,293,879	17,997,746
	379,869.25	46,150,602	46,530,471	3,042,680	43,487,791
		125,000	125,000	6,250	118,750
	10,801,311	-	10,801,311	-	10,801,311
	-	18,200,366	18,200,366	9,127,850	9,072,516
	-	17,504,901	17,504,901	4,449,162	13,055,739
	-	25,188,128	25,188,128	6,243,128	18,945,000
	-	5,792,157	5,792,157	2,960,097	2,832,060
	-	36,799,082	36,799,082	2,613,688	34,185,394
	-	3,802,742	3,802,742	1,663,949	2,138,793
	-	35,609,963	35,609,963	6,736,316	28,873,647

NOTES TO THE FINANCIAL STATEMENTS

Name of Premises and Address	Extent (Perches)	Building (Square Feet)	Date of Valuation
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Southern Province

Kekanadura - Weherahena Road, Kekanadura	12.0	1,704	May 10, 2004
Akmeemana - Ganegoda, Akmeemana	6.5	1,614	October 2, 1993
Galle Branch - No. 301, Matara Road, Magalle, Galle	30.0	1,224	October 9, 1999
Katuwana - Uda Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005
Uragasmanhandiya - Kosgoda Road, Uragasmanhandiya	20.0	1,940	April 10, 2012
Ambalantota - 139, Hambantota Road, Ambalantota	25.0	2,568	August 30, 2004
Agunakolapelessa, Ranna Road, Agunakolapelessa	12.0	2,371	August 27, 2001
D/O Galle - No. 301, Matara Road, Magalle, Galle	30.0	2,000	October 8, 1999
Hambantota - No. 01, Galwala Road, Hambantota	237.0	16,315	

Uva Province

Girandurukotte - Development Centre, Girandurukotte	10.1	1,661	November 30, 2011
Monaragala D/O - Monaragala Road, Buttala	34.0	1,706	October 22, 1999
H/O - No. 933, Kandy Road, Wedamulla, Kelaniya	24.0	5,375	March 5, 2012

Sabaragamuwa Province

Balangoda - No. 17, Rest House Approach Road, Balangoda	20.0	-	February 18, 2013
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Eastern Province

Swiss Village, Batticaloa			
Clock tower junction, Front of bus stand, Ampara			

Total

Cost of Land	Cost of Building	Total Value	Accumulated Depreciation	Written Down Value
LKR	LKR	LKR	LKR	LKR
1,418,000	1,194,535	2,612,535	895,629	1,716,906
-	600,000	600,000	599,999	1
-	4,927,109	4,927,109	3,297,681	1,629,429
1,320,000	7,406,958	8,726,958	5,553,527	3,173,431
1,620,667	1,675,534	3,296,201	1,507,598	1,788,603
-	13,354,618	13,354,618	5,158,907	8,195,711
2,000,000	3,070,100	5,070,100	2,301,874	2,768,226
-	3,470,348	3,470,348	2,179,232	1,291,116
1,750,000	4,884,716	6,634,716	3,385,137	3,249,580
14,864,666	18,034,049.44	33,034,049	14,864,666	18,169,383
-	3,227,674	3,227,674	1,362,767	1,864,907
1,150,000	3,162,263	4,312,263	2,516,089	1,796,174
80,419,000	139,371,952	219,790,952	42,803,902	176,987,050
6,679,574	-	6,679,574	-	6,679,574
173,370	-	173,370	-	173,370
468,550	-	468,550	-	468,550
123,180,341	518,636,883	641,817,225	163,982,988	477,834,236

NOTES TO THE FINANCIAL STATEMENTS

25. INTANGIBLE ASSETS

As at 31 December	2019 LKR	2018 LKR
Computer software		
Opening balance as at 1 January	228,670,607	178,040,183
Merged of LDB balances at 01.04.2019	33,826,261	-
Additions	13,815,989	50,630,424
Closing balance as at 31 December	276,312,857	228,670,607
(Less): Amortisation		
Opening balance as at 1 January	167,882,888	140,197,422
Merged of LDB balances at 01.04.2019	31,621,185	-
Charge for the year	31,452,440	27,685,466
Closing balance as at 31 December	230,956,513	167,882,888
Net book value	45,356,343	60,787,719

25.1 RIGHT OF USE ASSETS

	2019		
	Building LKR	Motor vehicles LKR	Total LKR
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 amortisation			
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 amortisation 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	Motor vehicles	Total
	LKR	LKR	LKR
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

As at 31 December	2019 LKR
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 31 December	2019 LKR	2018 LKR
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)

NOTES TO THE FINANCIAL STATEMENTS

26.1 AMOUNTS RECOGNISED IN THE INCOME STATEMENT

As at 31 December	2019 LKR	2018 LKR
Recognised in profit or loss	(167,082,742)	(37,148,264)
Recognised in other comprehensive income	(31,293,253)	(66,160,248)

26.2 MOVEMENT IN DEFERRED TAX BALANCES

2019	Net Balance as at 1 January 2019	Balances Merged from LDB as at 1 April 2019	Recognised in Profit or Loss	Recognised in OCI	Net Balance as at 31 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 1 January 2018	Recognised in Profit or Loss	Recognised in OCI	Net Balance as at 31 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 31 December	2019 LKR	2018 LKR
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 31 December	2019 LKR	2018 LKR
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 31 December	2019 LKR	2018 LKR
Not later than 1 year	96,000	96,000
	96,000	96,000
Less - Interest in suspense	-	-
Total	96,000	96,000

NOTES TO THE FINANCIAL STATEMENTS

29. DUE TO OTHER CUSTOMERS

As at 31 December	2019	2018
	LKR	LKR
At amortised 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 31 December	2019	2018
	LKR	LKR
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 31 December	2019	2018
	LKR	LKR
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 31 December	2019	2018
	LKR	LKR
Opening balance as at 1 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 31 December	4,707,852,534	4,707,852,534

DETAILS OF DEBENTURE ISSUED

	Note	No. of Debentures	Face Value LKR	Amortised Cost	
				2019 LKR	2018 LKR
Debentures issued in 2015	30.1.1	25,000,000	2,500,000,000	2,707,852,534	2,707,852,534
Debentures issued in 2017	30.1.2	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000
Total debentures issued by the Bank			4,500,000,000	4,707,852,534	4,707,852,534

30.1.1 DEBENTURE ISSUED IN 2015

Unsecured subordinated redeemable 5-year debentures of LKR 100/- each issued in 2015. The debentures are quoted in the Colombo Stock Exchange.

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2019 (LKR)	Amortised Cost 2018 (LKR)	Allotment Date	Maturity Date	Rate of the interest
A	21,288,500	2,128,850,000	2,320,446,500	2,320,446,500	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 LKR100/- each issued in 2017. The debentures are quoted in the Colombo Stock Exchange.

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2019 (LKR)	Amortised Cost 2018 (LKR)	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 payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000			

NOTES TO THE FINANCIAL STATEMENTS

31. CURRENT TAX LIABILITIES

As at 31 December	2019 LKR	2018 LKR
Balance as at 1 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 31 December	2019 LKR	2018 LKR
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	-
Total	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

As at 31 December	2019 LKR
As at 1 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 31 December 2019	892,113,602

33. RETIREMENT BENEFIT OBLIGATION

As at 31 December	2019 LKR	2018 LKR
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) RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

As at 31 December	2019 LKR	2018 LKR
Opening balance as at 1 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 as 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 31 December	2019 LKR	2018 LKR
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 31 December	2019 LKR	2018 LKR
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

NOTES TO THE FINANCIAL STATEMENTS

33.4 An actuarial valuation of the gratuity fund was carried out as at 31 December 2019 by Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method", recommended by Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

Actuarial assumptions	2019	2018
Discount rate as at 31 December	10.60%	11.50%
Future salary increment rate	8% (Every Three years with the next increment due on 01 January 2021)	8% (Every Three years with the next increment due on 01 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).

33.5 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
		LKR	LKR	LKR	LKR
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 31 December	2019 LKR	2018 LKR
Ordinary shares		
Opening balance as at 1 January	8,047,229,930	3,870,936,931
Issue of shares	-	4,176,292,999
Closing balance as at 31 December	8,047,229,930	8,047,229,930

35. STATUTORY RESERVE FUND

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

36. RETAINED EARNINGS

As at 31 December	2019 LKR	2018 LKR
Opening balance as at 1 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)
Dividend 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 31 December	2,421,534,400	2,315,905,812

37. OTHER RESERVES

A. CURRENT YEAR (2019)

	Opening balance as at 1 January LKR	Movement/ transfers LKR	Closing balance as at 31 December LKR
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 1 January LKR	Movement/ transfers LKR	Closing balance as at 31 December LKR
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

NOTES TO THE FINANCIAL STATEMENTS

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 recognised as assets and liabilities in the statement of financial position. However no material losses are anticipated as a result of these transactions.

These contingencies and commitments are quantifies below:

As at 31 December	2019 LKR	2018 LKR
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

As at 31 December	2019 LKR	2018 LKR
Balance as at 1 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)

As at 31 December	2019 LKR	2018 LKR
Short-term employment benefits	99,340,946	144,706,138
Post employment benefits	-	-
Total	99,340,946	144,706,138

NOTES TO THE FINANCIAL STATEMENTS

39.2.2 TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KEY MANAGEMENT PERSONNEL (KMP) AND THEIR CLOSE FAMILY MEMBERS (CFM)

As at 31 December	2019 LKR	2018 LKR
Items in the statement of financial position		
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 income statement		
Interest income	3,242,450	2,004,840
Interest expenses	4,133,197	7,314,328
Total	7,375,648	9,319,169

39.2.2.1 TERMS AND CONDITIONS OF THE ACCOMMODATION GRANTED TO KEY MANAGEMENT PERSONNEL (KMP) AND THEIR CLOSE FAMILY MEMBERS (CFM)

Type of the Loan	Other Terms and Conditions	Balance as at 31 December 2019	Security Details 31 December 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 December 2018	Security Details 31 December 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 regulatory capital.

39.2.3 GOODS AND SERVICES PURCHASED

During the year, goods and services purchased from the entities where KMPs have either control and/or joint control in the normal course of the business, are detailed below.

As at 31 December	2019 LKR	2018 LKR
Goods and services purchased	-	-
Total	-	-

39.3 TRANSACTIONS WITH THE SIGNIFICANT INVESTOR AND RELATED ENTITIES

In accordance 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	
As at 31 December	2019 LKR	2018 LKR
Items in the statement of financial position		
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

NOTES TO THE FINANCIAL STATEMENTS

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 accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees.

40. ASSETS PLEDGED AS SECURITY

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

2019

Type of Facility	Amount of Facility	Nature of Security	Value of Security	Balance as at 31 December 2019
	LKR Mn.		LKR Mn.	LKR 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	Nature of Security	Value of Security	Balance as at 31 December 2018
	LKR Mn.		LKR Mn.	LKR Mn.
1. Over Draft - BOC	1,326	FD 80912939	510.129	-
		FD 74353124	206.807	
		FD 82300125	242.000	
		FD 74817306	253.330	
		FD 74588793	236.170	
		FD 74619066	236.184	
2. Over Draft - PB	200	FD- 14-6001-000131896	327.446	-

41. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

As at 31 December		2019	2018
		LKR	LKR
Depreciation of property, plant and equipment/Amortisation of ROU	24	585,870,239	291,335,272
Amortisation of intangible assets	25	31,452,440	27,685,466
Staff loan adjustment		712,227,331	126,180,269
Impairment charges	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 through profit or loss	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

As at 31 December		2019	2018
		LKR	LKR
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 and other instruments		(11,970,000)	-
Total		(7,274,252,820)	(7,759,296,804)

43. CHANGE IN OPERATING LIABILITIES

As at 31 December		2019	2018
		LKR	LKR
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

NOTES TO THE FINANCIAL STATEMENTS

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 FAIR VALUE HIERARCHY

- Level 1 – Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments.
- Level 3 – Inputs that are unobservable; This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument valuation.

44.2 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table shows an analysis of financial instruments recorded at fair value at the reporting date by level of the fair value hierarchy: into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	2019			
	Level 1	Level 2	Level 3	Total
As at 31 December	LKR	LKR	LKR	LKR
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			
	Level 1	Level 2	Level 3	Total
As at 31 December	LKR	LKR	LKR	LKR
Equity instruments at fair value through profit or loss	115,600	-	-	115,600
Financial assets - Fair value through other comprehensive income	-	-	4,176,342,999	4,176,342,999
	115,600	-	4,176,342,999	4,176,458,599

Financial assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably.

44.3 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	Fair value hierarchy	2019		2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		LKR	LKR	LKR	LKR
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 and 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 premature 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.

NOTES TO THE FINANCIAL STATEMENTS

45. CURRENT VS NON-CURRENT ANALYSIS

2019

Assets	Within 12 Months	After 12 Months	Total
	LKR	LKR	LKR
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 and 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, plant 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	After 12 Months	Total
	LKR	LKR	LKR
Cash and cash equivalent	689,184,136	-	689,184,136
Placements with banks	6,496,628,053	-	6,496,628,053
Equity instruments at fair value through profit or loss	115,600	-	115,600
Financial assets at amortised cost - Loans and receivables from other customers	53,728,408,245	79,704,395,759	133,432,804,004
Financial assets at amortised cost - Debt and other instruments	24,728,225,353	3,192,101,112	27,920,326,465
Equity instruments at fair value through other comprehensive income	4,176,292,999	50,000	4,176,342,999
Property, plant 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	-

NOTES TO THE FINANCIAL STATEMENTS

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 analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk Management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

46.1.2 ASSET AND LIABILITY COMMITTEE (ALCO)

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Departments, and the Bank Chief Risk Officer. The Committee meets regularly to monitor and manage the assets and liabilities of the Bank and also overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

46.1.3 RISK MEASUREMENT AND REPORTING

The Bank's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits and thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

46.1.4 RISK MITIGATION

As part of its overall Risk Management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

46.2 CREDIT RISK

Credit Risk is the risk of financial loss to the Bank if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers/other banks and investments in debt securities. In addition to the Credit Risk from direct funding exposure, the Bank would also be exposed to indirect liabilities such as guarantees etc, which would carry Credit Risk. The Bank considers and consolidates all elements of Credit Risk exposure (such as individual obligor default risk, country and sector concentration risks) to ensure stringent Credit Risk Management.

46.2.1 IMPAIRMENT ASSESSMENT (POLICY APPLICABLE FROM 1 JANUARY 2018)

46.2.1.1 THE BANK'S INTERNAL RATING PROCESS

TREASURY, TRADING AND INTERBANK RELATIONSHIPS

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, primary-dealers, exchanges and clearing-houses. For these relationships, the Bank's Treasury Unit analyses publicly available information such as financial information.

SECTOR CLASSIFICATION OF LOANS

The loan classification of the Bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka. Of the total sector classification this report categorised them in top major sectors, in accordance to the size of the portfolios.

The highest sector under this classification as per the Bank's 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 of Term 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 3rd 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. Liya Isura - Interest free loan scheme for women entrepreneurs.

CORPORATE LOANS (SERVICES, MANUFACTURING AND INDUSTRY LOANS)

For corporate loans, the borrowers are assessed by specialised credit employees of the Bank. The Credit Risk assessment is based on the behaviour of the customer and credit quality based on the past due status. Further, the Bank considers following aspects while assessing the risk of a customer :

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Company's performance.

NOTES TO THE FINANCIAL STATEMENTS

CONSUMER LENDING AND RETAIL LOANS

Consumer lending comprises Housing Loans, Consumer Loans and Personal Loans. These products along with retail mortgages and some of the less complex small business lending are rated by (Corporate and retail credit scoring models) primarily driven by days past due (Credit Information Bureau reports). Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, economic condition, changes in personal income/salary levels based on records of repayment capacity, repayment sources, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

THE BANK'S DELINQUENCY STATUS

Delinquency status	Description
Stage 1	
Regular	Performing
1-30 days	Performing
Stage 2	
31-60 days	Under Performing
61-90 days	Under Performing
Stage 3	
Above 90 days	Non-Performing

46.2.1.2 EXPOSURE AT DEFAULT

The Exposure at Default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the 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 30 days past due.

The Bank also applies a secondary qualitative method for triggering a significant increase in Credit Risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne.

46.2.1.5 GROUPING FINANCIAL ASSETS MEASURED ON A COLLECTIVE BASIS

Asset classes where the Bank calculates ECL on an individual basis includes all customers above the individually significant threshold of LKR 2 Mn. of the total exposure.

Asset classes where the Bank calculates ECL on a collective basis include:

- Customers below the Individually Significant threshold of LKR 2 Mn.

The Bank groups these exposures into smaller homogeneous portfolios as described below:

- Product Type
- Collateral Type
- Nature of Business
- Utilisation/Revolving Amount
- Income/Repayment Source
- Loan Amount
- LTV
- LTI
- Repayment History

46.2.1.6 ANALYSIS OF INPUTS TO THE ECL MODEL UNDER MULTIPLE ECONOMIC SCENARIOS PER GEOGRAPHIC REGIONS

An overview of the approach to estimating ECLs is set out in Note 3.1 Summary of significant accounting policies and in Note 3.1.1.7 Overview of the ECL Principles. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank' 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.

NOTES TO THE FINANCIAL STATEMENTS

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for “Subsequent years” represent a long-term average and so are the same for each scenario.

Key Drivers	ECL Scenario	Assigned Probabilities	2020	2021	2022	2023	2024	Subsequent Years
GDP growth								
%	Base Case	30	2.70	2.70	2.70	2.70	2.70	2.70
	Best Case	30	2.74	2.77	2.81	2.84	2.86	2.86
	Worse Case	40	2.64	2.63	2.61	2.60	2.57	2.57
Inflation Rates								
%	Base Case	30	6.20	6.20	6.20	6.20	6.20	6.20
	Best Case	30	5.94	5.87	5.81	5.75	5.61	5.61
	Worse Case	40	6.38	6.55	6.71	6.88	6.96	6.96
Interest Rate								
%	Base Case	30	8.44	8.44	8.44	8.44	8.44	8.44
	Best Case	30	8.00	7.90	7.79	7.69	7.45	7.45
	Worse Case	40	8.75	9.03	9.31	9.61	9.74	9.74
Exchange rates (USD to LKR)								
	Base Case	30	194.35	206.03	218.42	231.55	245.47	250.00
	Best Case	30	183.75	184.17	184.59	185.02	185.44	185.87
	Worse Case	40	219.31	250.00	250.00	250.00	250.00	250.00
Unemployment rates								
%	Base Case	30	5.10	5.10	5.10	5.10	5.10	5.10
	Best Case	30	5.06	5.05	5.04	5.03	5.00	5.00
	Worse Case	40	5.13	5.15	5.15	5.15	5.15	5.15

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;

As at 31 December	Carrying Amount	
	2019 LKR	2018 LKR
Placements with banks	9,798,242,492	6,496,628,053
Financial assets held for trading/Equity Instruments at fair value through profit or loss	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 and 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 recognised on the statement of financial position, they do contain Credit Risk and are, therefore, part of the overall risk of the Bank.

The table below shows the Bank's maximum Credit Risk exposure for commitments and contingencies. The maximum exposure to Credit Risk relating to a financial guarantee is the maximum amount the Bank could have to pay if the guarantee is called upon. The maximum exposure to Credit Risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December	2019 LKR	2018 LKR
Contingent liabilities		
Bank guarantee	139,742,498	130,591,381
Bills sent 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

NOTES TO THE FINANCIAL STATEMENTS

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 and 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 and other instruments					
Debentures - Quoted	21.1.1	8,820	-	-	8,820
Investment in fixed deposits	21.2.1	1,107,316	-	-	1,107,316
Credit related commitments and contingencies	38.1		1,715,667	-	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 LKR	2018 LKR
Balance as at 1 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 as at 01.04.2019	1,801,375,047	145,063
Balance as at 31 December	7,667,314,167	3,498,117,663

46.2.4 CREDIT EXPOSURE ON SECTOR WISE - LOANS AND RECEIVABLES TO CUSTOMERS

As at 31 December	2019 LKR	2018 LKR
Agriculture	37,815,449,698	36,569,136,861
Industrial	24,421,355,279	22,639,910,870
Trade and 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 and advances	2,345,059,019	2,300,074,992
Total	144,693,550,841	137,769,683,363

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 LKR	Exposure Net of Collateral LKR
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 and 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

NOTES TO THE FINANCIAL STATEMENTS

2018	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR	LKR
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 and other instruments	27,757,513,965	27,757,513,965
Equity instruments at fair value through profit or loss	4,176,342,999	4,176,342,999
Other assets	1,448,173,102	1,448,173,102

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	
	LKR	LKR	
Loans and advances to retails customers			
Mortgage lending	22,569,785,739	20,370,310,002	Residential 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.

	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

46.2.7 CONCENTRATION OF CREDIT RISK

The concentration risk is monitored/managed through sector, product etc. maximum exposure to a single borrower and geographical area.

CONCENTRATION OF CREDIT RISK

The Company monitors concentrations of Credit Risk by sector and by geographic location. An analysis of concentration 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	
	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 guarantee	122,078,675,856	116,859,128,335	-	-	-	-
Mortgages	22,569,785,739	20,808,657,214	-	-	-	-
Unsecured lending	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 maintaining contingency facilities.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

46.3.1 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 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	3-12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
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 and 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	3-12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalent	689,184,136	-	-	-	-	689,184,136
Placements with banks	6,496,628,053	-	-	-	-	6,496,628,053
Equity Instruments at fair value through profit or loss	115,600	-	-	-	-	115,600
Financial assets at amortised cost - Loans and receivables from other customers	13,517,685,246	37,258,520,246	50,494,697,973	22,320,618,328	14,178,161,569	137,769,683,363
Financial assets at amortised cost - Debt and other instruments	19,171,929,841	7,359,045,560	1,196,948,630	562,500,000	3,625,000,000	31,915,424,030
Equity instruments at fair value through other comprehensive income	4,176,292,999	-	-	-	50,000	4,176,342,999
Other assets	1,111,191,195	45,727,483	-	27,377,334	263,877,089	1,448,173,101
Total assets	45,163,027,070	44,663,293,289	51,691,646,604	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

46.3.2 CONTRACTUAL MATURITIES OF COMMITMENTS AND CONTINGENCIES

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2019

Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 - 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
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

NOTES TO THE FINANCIAL STATEMENTS

2018

Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1 - 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
Bank guarantee (without impairment)	28,233,000	22,499,000	79,259,381	600,000	-	130,591,381
Other contingent items - Bills sent for collection	83,883,453	-	-	-	-	83,883,453
Total Contingent Liabilities	112,116,453	22,499,000	79,259,381	600,000	-	214,474,834

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 AND DUE TO OTHER CUSTOMERS (DEPOSITS) TO LOANS AND RECEIVABLES FROM BANKS AND OTHER CUSTOMERS (ADVANCES) RATIO

The Bank is aware of the importance of due to banks and other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks and due to other customers (Deposits).

Due to banks and due to other customers to loans and receivables from banks and other customers ratio.

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

46.4 MARKET RISK

Market Risk, is the risk that changes in market prices - such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's Market Risk Management is to manage and control Market Risk Exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

Overall authority for Market Risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to Market Risk between trading and non-trading portfolios:

2019

2019		Market Risk Measure	
As at 31 December	Carrying Amount	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	
Financial investments at amortised cost - Debt and other instruments	45,664,745,400	-	45,664,745,400
Financial assets at amortised cost - Loans and receivables from other customers	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

2018	Market Risk Measure		
As at 31 December	Carrying Amount	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 and other instruments	27,757,513,965	-	27,757,513,965
Financial assets at amortised cost - Loans and receivables from other customers	133,432,804,004	-	133,432,804,004
Loans and receivables from other customers	4,176,342,999	-	4,176,342,999
Other assets	1,448,173,102	-	1,448,173,102
Liabilities subject to market risk			
Due to banks	11,098,334,822	-	11,098,334,822
Due to other customers	141,559,973,557	-	141,559,973,557
Debt issued and other borrowed funds	4,707,852,534	-	4,707,852,534
Current tax liabilities	473,833,076		473,833,076
Other liabilities	1,714,679,920	-	1,714,679,920

NOTES TO THE FINANCIAL STATEMENTS

46.4.1 EXPOSURE TO INTEREST RATE RISK

2019	Carrying Amount LKR	Up to 3 Months LKR	3-12 Months LKR	1 - 5 Years LKR	Over 5 Years LKR
Cash and balances with Central Bank	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 and 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	Up to 3 Months LKR	Up to 3 Months LKR	3-12 Months LKR	1 - 5 Years LKR	Over 5 Years LKR
Cash and balances with Central Bank	689,184,136	689,184,136	-	-	-
Placements with banks	6,496,628,053	6,496,628,053	-	-	-
Financial assets at amortised cost - Loans and receivables from other customers	133,432,804,004	12,951,174,383	35,697,057,904	71,200,600,825	13,583,970,892
Financial investments at amortised cost - Debt and other instruments	27,920,326,465	18,964,295,863	5,763,920,670	516,934,932	2,675,175,000
Financial assets - Fair value through other comprehensive income	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.

46.5 OPERATIONAL RISK

'Operational Risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational Risks arise from all of the Bank's operations.

The Bank's objective is to manage Operational Risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for Operational Risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address Operational Risk. This responsibility is support by the development of overall Bank standards for the management of Operational Risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of Operational Risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

47. CAPITAL MANAGEMENT

47.1 REGULATORY CAPITAL

The Bank's lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Group capital management goals are as follows;

- a. Ensure regulatory minimum capital adequacy of 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.

NOTES TO THE FINANCIAL STATEMENTS

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 optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

48. 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 (COVID 19) OUTBREAK

The outbreak and spread of the coronavirus ("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 Pradeshiya Sanwardana Bank. The negative financial implications are likely to be felt by the Industry including Pradeshiya Sanwardana Bank in year 2020.

The moratorium, the various concessions extended there from and the likely increase in non-performing loans and 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 normalisation 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.

SUPPLEMENTARY INFORMATION

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THREE YEAR SUMMARY

Description	2019 LKR	2018 LKR	2017 LKR
Profit and Loss			
Total income	27,507,821,054	26,070,610,605	22,016,079,277
Interest income	26,357,071,298	24,865,108,981	20,908,493,021
Interest expenses	(13,903,881,276)	(12,959,526,709)	(11,233,284,493)
Net interest income	12,453,190,022	11,905,582,272	9,675,208,528
Net other income	872,445,458	946,396,458	926,492,116
Total operating income	13,325,635,480	12,851,978,730	10,601,700,644
Impairment loss on financial assets	(2,408,748,853)	(1,409,784,095)	(443,866,831)
Net operating income	10,916,886,627	11,442,194,635	10,157,833,813
Personnel expenses	(5,931,625,972)	(5,877,946,793)	(4,980,435,598)
Depreciation and amortisation expenses	(617,322,679)	(319,020,738)	(326,101,075)
Other expenses	(1,407,680,268)	(1,638,896,765)	(1,419,302,464)
Levy paid to general treasury	-	-	(125,000,000)
Operating profit	2,960,257,709	3,606,330,338	3,306,994,676
NBT	(123,625,704)	(154,490,412)	(131,325,757)
VAT on financial services	(1,012,948,950)	(1,158,678,090)	(984,943,174)
Debt repayment levy	(601,522,646)	(190,079,946)	-
Profit before taxation	1,222,160,409	2,103,081,890	2,190,725,745
Tax on profit	(723,565,878)	(1,029,495,530)	(906,796,239)
Profit after taxation	498,594,531	1,073,586,360	1,283,929,506
Assets			
Cash and cash equivalent	2,750,187,219	689,184,136	572,294,808
Placements with banks	9,798,242,492	6,496,628,053	6,682,475,675
Equity instruments at fair value through profit or loss	123,000	115,600	146,500
Financial assets at amortised cost - Loans and receivables from other customers	136,205,641,441	133,432,804,004	127,508,812,394
Financial investments at amortised cost - Debt and other instruments	45,664,745,400	27,920,326,465	28,130,079,911
Equity Instruments at fair value through other comprehensive income	2,289,919	4,176,342,999	-
Financial assets available for sale	-	-	50,000
Financial assets held-to-maturity	-	-	2,512,362,500
Property, plant and equipment	1,228,419,894	1,275,785,603	1,204,892,835
Intangible assets	45,356,343	60,787,719	37,842,762
Right of use assets	855,183,154	-	-
Deferred tax assets	696,316,484	467,332,859	343,878,698
Other assets	2,732,423,840	2,418,011,987	2,266,365,532
Total assets	199,978,929,186	176,937,319,425	169,259,201,615

Description	2019 LKR	2018 LKR	2017 LKR
Liabilities			
Due to banks	22,050,009,005	11,098,334,822	10,729,312,134
Due to other customers	149,599,829,047	141,559,973,557	139,827,364,797
Debt issued and other borrowed funds	4,707,852,534	4,707,852,534	4,707,852,534
Current tax liabilities	448,881,448	473,833,076	365,502,454
Other liabilities	5,970,920,446	2,460,286,430	2,320,526,315
Retirement benefit obligation	2,236,115,128	1,926,924,377	1,695,894,720
Total liabilities	185,013,607,608	162,227,204,796	159,646,452,955
Equity			
Stated capital	8,047,229,930	8,047,229,930	3,870,936,931
Statutory reserve fund	742,261,195	717,331,468	663,652,150
Retained earnings	2,421,534,400	2,315,905,812	1,716,908,747
Other reserves	3,754,296,053	3,629,647,420	3,361,250,831
Total shareholders' equity	14,965,321,578	14,710,114,631	9,612,748,660
Total equity and liabilities	199,978,929,186	176,937,319,426	171,839,953,456
Statutory liquid assets ratio	32.38%	24.27%	26.27%
Capital adequacy ratios			
As per BASEL III			
Common equity tier 1 capital ratio	10.90%	11.58%	8.73%
Total tier 1 capital ratio	10.90%	11.58%	8.73%
Total capital ratio	16.27%	13.61%	12.57%

INVESTOR INFORMATION

LISTED DEBENTURE INFORMATION

Unsecured Subordinated Redeemable 5-years Debentures of LKR 100/-.

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2019 (LKR)	Allotment Date	Maturity Date	Rate of the Interest	Interest Rate of Comparable Government Security	Traded Yield	2019/01/01 2019/12/31	2018/01/01 2018/12/31
A	21,288,500	2,128,850,000	2,320,446,500	2015/01/30	2020/01/30	Fixed - 9.00% per annum payable annually	9.87%	0%	Not Traded	Not Traded
B	3,610,200	361,020,000	377,053,640	2015/01/30	2020/01/30	Fixed - 8.81% per annum payable bi- annually	9.87%	0%	Not Traded	Not Traded
C	101,300	10,130,000	10,352,394	2015/01/30	2020/01/30	Fixed - 8.71% per annum payable quarterly	9.87%	0%	Not Traded	Not Traded
	25,000,000	2,500,000,000	2,707,852,534							

Instrument Rating : "A-" ICRA LANKA

RDB DEBENTURE TYPE C

Last Traded Date 03.12.2015

- Highest Price - LKR 90.00, Lowest Price - LKR 90.00, Last Transaction Price - LKR 90.00

UNLISTED DEBENTURE INFORMATION

Unsecured Subordinated Redeemable 5-years Debentures of LKR 100/-.

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2019 (LKR)	Allotment Date	Maturity Date	Rate of the Interest
A	3,000,000	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	2017.03.31	2022.03.31	Fixed - 15.50% per annum payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000			

Instrument Rating : "A-" ICRA LANKA

SIGNIFICANT RATIOS

	31.12.2019	31.12.2018
Net assets value per share (LKR)	27.45	26.99
Debt to equity (%)	31.46	32.00
Interest cover (Times)	3.26	4.61

SHARE INFORMATION

	Current Year		Previous Year	
	31.12.2019		31.12.2018	
Shareholders	No. of Ordinary Shares	Holding %	No. of Ordinary Shares	Holding %
General Treasury	495,758,027	90.9	495,758,027	90.9
Bank of Ceylon	16,448,448	3.0	16,448,448	3.0
People's Bank	16,448,448	3.0	16,448,448	3.0
National Savings Bank	16,452,126	3.0	16,452,126	3.0
	545,107,049		545,107,049	

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

PROVINCES OF SRI LANKA

1. Northern Province
2. North Western Province
3. Sabaragamuwa Province
4. Eastern Province
5. Southern Province
6. North Central Province
7. Central Province
8. Western Province
9. Uva Province

DISTRICTS OF SRI LANKA

1. Jaffna District
2. Kilinochchi District
3. Mullaitivu District
4. Mannar District
5. Vavuniya District
6. Trincomalee District
7. Anuradhapura District
8. Puttalam District
9. Polonnaruwa District
10. Kurunegala District
11. Matale District
12. Kandy District
13. Kegalle District
14. Gampaha District
15. Nuwara Eliya District
16. Badulla District
17. Batticaloa District
18. Ampara District
19. Monaragala District
20. Ratnapura District
21. Colombo District
22. Kalutara District
23. Galle District
24. Matara District
25. Hambantota District

NORTHERN PROVINCE	
Admin District	Branch Name
Jaffna	Chunnakam
Jaffna	Jaffna
Kilinochchi	Kilinochchi
Mannar	Mannar
Vavuniya	Vavuniya
Vavuniya	Kanakarayankulam
Vavuniya	Bogaswewa

SABARAGAMUWA PROVINCE	
Admin District	Branch Name
Kegalle	Aranayake
Kegalle	Bulathkohupitiya
Kegalle	Dehiowita
Kegalle	Deraniyagala
Kegalle	Dewalegama
Kegalle	Hemmathagama
Kegalle	Kegalle
Kegalle	Kegalle 2 nd City
Kegalle	Kitulgala
Kegalle	Kotiyakumbura
Kegalle	Mawanella
Kegalle	Nelumdeniya
Kegalle	Pitagaldeniya
Kegalle	Rambukkana
Kegalle	Ruwanwella
Kegalle	Warakapola
Kegalle	Yatiyanthota
Ratnapura	Balangoda
Ratnapura	Eheliyagoda
Ratnapura	Embilipitiya
Ratnapura	Erathna
Ratnapura	Godakawela
Ratnapura	Kahawatta
Ratnapura	Kalawana
Ratnapura	Kiriella
Ratnapura	Kolonna
Ratnapura	Kuruwita
Ratnapura	Nivithigala
Ratnapura	Pelmadulla
Ratnapura	Pothupitiya
Ratnapura	Pulungupitiya
Ratnapura	Rakwana
Ratnapura	Rathnapura
Ratnapura	Sri Palabaddala
Ratnapura	Weligepola

NORTH WESTERN PROVINCE	
Admin District	Branch Name
Kurunegala	Alawwa
Kurunegala	Ambanpola
Kurunegala	Athugalpura
Kurunegala	Galgamuwa
Kurunegala	Giriulla
Kurunegala	Ibbagamuwa
Kurunegala	Kuliypitiya
Kurunegala	Kurunegala
Kurunegala	Maho
Kurunegala	Mawathagama
Kurunegala	Melsiripura
Kurunegala	Narammala
Kurunegala	Nikaweratiya
Kurunegala	Panduwasnuwara
Kurunegala	Paragahadeniya
Kurunegala	Perakumpura
Kurunegala	Polpithigama
Kurunegala	Pothuhera
Kurunegala	Rideegama
Kurunegala	Wariyapola
Puttalam	Anamaduwa
Puttalam	Bowatta
Puttalam	Chilaw
Puttalam	Dummalasuriya
Puttalam	Kalpitiya
Puttalam	Kirimatiyana
Puttalam	Mahawewa
Puttalam	Mampuri
Puttalam	Mundel
Puttalam	Nattandiya
Puttalam	Nawagaththegama
Puttalam	Palakuda
Puttalam	Pannala
Puttalam	Puttalam
Puttalam	Santa Anapura
Puttalam	Wennappuwa

EASTERN PROVINCE	
Admin District	Branch Name
Ampara	Akkaraipatthu
Ampara	Ampara
Ampara	Damana
Ampara	Dehiatthakandiya
Ampara	Kalmunai
Ampara	Mahaoya
Ampara	Nintavur
Ampara	Pothuwil
Ampara	Sammanthurai
Ampara	Uhana
Batticaloa	Batticaloa
Batticaloa	Batticaloa 2 nd City
Batticaloa	Chenkalady
Batticaloa	Eraur
Batticaloa	Kaluwanchikudy
Batticaloa	Kattankudy
Batticaloa	Kokkaddicholai
Batticaloa	Valachchenai
Trincomalee	Kanthale
Trincomalee	Muththur
Trincomalee	Trincomalee
Trincomalee	Trincomalee 2 nd City

SOUTHERN PROVINCE	
Admin District	Branch Name
Galle	Ahangama
Galle	Akmeemana
Galle	Baddegama
Galle	Balapitiya
Galle	Batapola
Galle	Elpitiya
Galle	Galle
Galle	Gonagalapura
Galle	Hikkaduwa
Galle	Imaduwa
Galle	Kaluwella
Galle	Karandeniya
Galle	Karapitiya
Galle	Neluwa
Galle	Pitigala
Galle	Thalagaswala
Galle	Udugama
Galle	Uragasmanhandiya
Galle	Yakkalamulla
Hambantota	Agunakolapelessa
Hambantota	Ambalantota
Hambantota	Barawakumbuka
Hambantota	Beliatta
Hambantota	Hambantota
Hambantota	Hambantota 2 nd City
Hambantota	Katuwana
Hambantota	Lunugamvehera
Hambantota	Middeniya
Hambantota	Ranna
Hambantota	Sooriyawewa
Hambantota	Tangalle
Hambantota	Thissamaharama
Hambantota	Walasmulla
Hambantota	Warapitiya
Hambantota	Weeraketiya
Matara	Akuressa
Matara	Deiyandara
Matara	Deniyaya
Matara	Devinuwara
Matara	Dikwella
Matara	Gandara
Matara	Hakmana
Matara	Kamburugamuwa
Matara	Kamburupitiya
Matara	Kekanadura
Matara	Kirinda
Matara	Matara City
Matara	Mawarala
Matara	Mirissa
Matara	Morawaka
Matara	Pamburana
Matara	Pitabeddara
Matara	Thihagoda
Matara	Urubokka
Matara	Weligama

NORTH CENTRAL PROVINCE	
Admin District	Branch Name
Anuradhapura	Anuradhapura
Anuradhapura	Galenbidunuwewa
Anuradhapura	Galnewa
Anuradhapura	Gonapathirawa
Anuradhapura	Kahatagasdigitiya
Anuradhapura	Kekirawa
Anuradhapura	Madawachchiya
Anuradhapura	Mihinthale
Anuradhapura	New Town - Anuradhapura
Anuradhapura	Rambewa
Anuradhapura	Thalawa
Anuradhapura	Thambuththegama
Anuradhapura	Thambuththegama Town
Anuradhapura	Thirappane
Polonnaruwa	Aralaganwila
Polonnaruwa	Bakamoonna
Polonnaruwa	Galamuna
Polonnaruwa	Hingurakgoda
Polonnaruwa	Kaduruwela
Polonnaruwa	Kaduruwela 2 nd City
Polonnaruwa	Manampitiya
Polonnaruwa	Medirigiriya
Polonnaruwa	Polonnaruwa
Polonnaruwa	Pulasthigama
Polonnaruwa	Sewanapitiya
Polonnaruwa	Siripura

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

CENTRAL PROVINCE	
Admin District	Branch Name
Kandy	Danture
Kandy	Daulagala
Kandy	Gampola
Kandy	Hataraliyadda
Kandy	Hedeniya
Kandy	Kandy
Kandy	Kandy 2 nd City
Kandy	Katugastota
Kandy	Manikhinna
Kandy	Marassana
Kandy	Morayaya
Kandy	Nawalapitiya
Kandy	Peradeniya
Kandy	Pujapitiya
Kandy	Senkadagala
Kandy	Teldeniya
Kandy	Udawela
Kandy	Ududumbara
Kandy	Wattegama
Matale	Dambulla
Matale	Galewela
Matale	Laggala
Matale	Matale
Matale	Naula
Matale	Raththota
Matale	Wilgamuwa
Nuwara Eliya	Agarapathana
Nuwara Eliya	Ginigathhena
Nuwara Eliya	Hanguranketha
Nuwara Eliya	Kotagala
Nuwara Eliya	Nildandahinna
Nuwara Eliya	Nuwara Eliya
Nuwara Eliya	Pundaluoya
Nuwara Eliya	Rikillagaskada

WESTERN PROVINCE	
Admin District	Branch Name
Colombo	Avissawella
Colombo	Homagama
Colombo	Kolonnawa
Colombo	Nugegoda
Colombo	Piliyandala
Gampaha	Divulapitiya
Gampaha	Gampaha
Gampaha	Ja-Ela
Gampaha	Kelaniya
Gampaha	Kirindiwela
Gampaha	Mawaramandiya
Gampaha	Minuwangoda
Gampaha	Mirigama
Gampaha	Miriswatte
Gampaha	Negombo
Gampaha	Nittambuwa
Gampaha	Ragama
Kalutara	Bulathsinhala
Kalutara	Walagedara
Kalutara	Agalawatta
Kalutara	Millaniya
Kalutara	Gonapola
Kalutara	Moronthuduwa
Kalutara	Beruwala
Kalutara	Panadura
Kalutara	Horana
Kalutara	Warakagoda
Kalutara	Ingiriya
Kalutara	Dodangoda
Kalutara	Meegahatenna
Kalutara	Baduraliya
Kalutara	Kalutara
Kalutara	Moragahahena
Kalutara	Mathugama
Kalutara	Wadduwa

UVA PROVINCE	
Admin District	Branch Name
Badulla	Badulla
Badulla	Bandarawela
Badulla	Bogahakumbura
Badulla	Diyathalawa
Badulla	Girandurukotte
Badulla	Haldummulla
Badulla	Haputhale
Badulla	Kandeketiya
Badulla	Lunugala
Badulla	Mahiyangana
Badulla	Meegahakiwula
Badulla	Passara
Badulla	Rideemaliyadda
Badulla	Uva Maligathenna
Badulla	Uva Paranagama
Badulla	Welimada
Monaragala	Badalkumbura
Monaragala	Bibile
Monaragala	Buttala
Monaragala	Madulla
Monaragala	Medagama
Monaragala	Monaragala
Monaragala	Sevanagala
Monaragala	Siyambalanduwa
Monaragala	Thanamalvila
Monaragala	Wellaway

NOTES

NOTES

CORPORATE INFORMATION

REGISTERED NAME OF THE BANK

Pradeshiya Sanwardana Bank

LEGAL STATUS

A licensed specialised bank established under Pradeshiya Sanwardana Bank Act No. 41 of 2008

CREDIT RATING

"A" Negative ICRA Lanka Limited

BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. M Mahinda Saliya - Chairman
Mr. W M Karunaratne - Director
Mr. M S D Ranasiri - Director
Prof. H M W Ariyaratne Herath - Director
Dr. Nirmal De Silva - Director
Mr. Lalith Abeysiriwardena - Director

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. K B Wijeratne - Director
Mr. A K Seneviratne - Director
Mr. M J P Salgado - Director (till 29 February 2020)
Mr. M A B Silva - Director (till 4 March 2020)
Mr. K E D Sumanasiri - Director
(appointed on 19 May 2020)

GENERAL MANAGER/CEO

Mr. T Kuhan

SECRETARY TO THE BOARD OF DIRECTORS

Ms. R M T Rajapaksha

NUMBER OF BRANCHES

276

HEAD OFFICE

No. 933, Kandy Road, Wedamulla, Kelaniya
Tel : +94 11203 5454/+94 112 035 455-9
Fax : +94 11203 5467
E Mail : info@rdb.lk
Website : www.rdb.lk
Tax Payer Identification Number (TIN) : 409272339
VAT Reg. No. : 409272339 – 7000

AUDITORS

Auditor General
National Audit Office
No. 306/72, Polduwa Road, Battaramulla.

PROVINCIAL OFFICES

NORTH CENTRAL PROVINCIAL OFFICE

No. 65D, 4th Lane, Abaya Place, Anuradhapura.

UVA PROVINCIAL OFFICE

No. 1/315, Passara Road, Badulla.

SABARAGAMUWA PROVINCIAL OFFICE

No. 28B, Bandaranayake Mawatha, Ratnapura.

SOUTHERN PROVINCIAL OFFICE

No. 28B, Esplanade Road, Uyanwatta, Matara.

CENTRAL PROVINCIAL OFFICE

No. 16, Dharmashoka Mawatha, Kandy.

WESTERN PROVINCIAL OFFICE

No. 36, Kandy Road, Miriswatta, Mudungoda.

NORTH WESTERN PROVINCIAL OFFICE

No. 155, Negombo Road, Kurunegala.

EASTERN PROVINCIAL OFFICE

No. 51A, New Kalmunai Road, Kallady, Batticaloa.