

# **Pradeshiya Sanwardana Bank**

**Audited Financial  
Statements for the  
year ended  
31<sup>st</sup> December 2020**



# ජාතික විගණන කාර්යාලය

## தேசிய கணக்காய்வு அலுவலகம்

### NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

BAF/F/RDB/1/20/32

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

17 June 2021

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 2020 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 2020 comprising the statement of financial position as at 31 December 2020 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.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Emphasis of Matter

I draw attention to Note 20.2 to the financial statements which discloses the impairment provision is recognized net of the funds available in the Special Reserve Fund created to provide for bad and doubtful debts of the bank as per the Section 23 of Pradeshiya Sanwardana Bank Act No.41 of 2008. My opinion is not qualified in respect of this matter.



## 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.

## 1.3 Other information included in the Bank's 2020 Annual Report

The other information comprises the information included in the Bank's 2020 Annual Report but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do 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.

When I read the Bank's 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

## 1.4 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.

### **1.5 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.

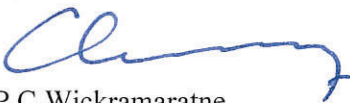
## **2. Report on Other Legal and Regulatory Requirements**

### **2.1. National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.**

- 2.1.1. 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.
- 2.1.2. 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.
- 2.1.3. 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.

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

- 2.2.1. 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
- 2.2.2. 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
- 2.2.3. 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
- 2.2.4. 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



# Pradeshiya Sanwardana Bank

## INCOME STATEMENT

Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
Gross income	5	24,354,246,869	27,507,821,054
Interest income		23,182,459,141	26,357,071,298
Interest expenses		(12,294,380,832)	(13,903,881,276)
<b>Net interest income</b>	6	10,888,078,309	12,453,190,022
Fee and commission income		1,143,097,671	1,134,421,657
Fee and commission expenses		(271,935,223)	(278,304,299)
<b>Net fee and commission income</b>	7	871,162,448	856,117,358
Net trading gain/(loss)	8	23,135,814	4,757,039
Other operating income (net)	9	5,554,243	11,571,062
<b>Total operating income</b>		11,787,930,814	13,325,635,480
Impairment charges	10	(2,010,929,062)	(2,408,748,853)
<b>Net operating income</b>		9,777,001,752	10,916,886,627
<b>Less-Operating expenses</b>			
Personnel expenses	11	(5,983,362,037)	(5,931,625,972)
Depreciation and amortization expenses		(616,792,758)	(617,322,679)
Other expenses	12	(1,115,987,925)	(1,407,680,268)
<b>Operating profit before value added tax (VAT)</b>		2,060,859,032	2,960,257,709
Taxes on Financial Services & DRL	13	(1,047,410,630)	(1,738,097,299)
<b>Profit before tax</b>		1,013,448,401	1,222,160,409
Tax expenses	14	(609,412,349)	(723,565,878)
<b>Profit for the year</b>		404,036,052	498,594,531
<b>Earnings per share</b>			
Earnings per share : Basic	15	0.74	0.91

*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 06 to 71.

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
<b>Profit for the year</b>		<u>404,036,052</u>	<u>498,594,531</u>
<b>Other Comprehensive income/(expenses)</b>			
<b>Other Comprehensive income not to be reclassified to profit or loss</b>			
Actuarial loss on retirement benefit obligation	33.3	(335,579,854)	(111,761,620)
Deferred tax effect on above	26.2	80,539,165	31,293,253
<b>Total Other Comprehensive income for the year, net of taxes</b>		<u>(255,040,689)</u>	<u>(80,468,366)</u>
<b>Total comprehensive income for the year</b>		<u>148,995,363</u>	<u>418,126,165</u>

*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 06 to 71.



# Pradeshiya Sanwardana Bank


## STATEMENT OF FINANCIAL POSITION

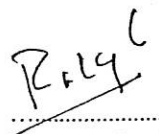
As at 31 December 2020

	Note	2020 Rs.	2019 Rs.
<b>Assets</b>			
Cash and cash equivalent	17	3,758,858,141	2,750,187,219
Placements with banks	18	8,436,353,244	9,798,242,492
Equity Instruments at fair value through profit or loss	19	145,160	123,000
Financial assets at amortised cost-Loans and receivables from other customers	20	156,694,052,473	136,205,641,441
Financial investments at amortised cost-Debt & other instruments	21	46,962,354,137	45,664,745,400
Equity Instruments at fair value through other comprehensive income	22	2,289,919	2,289,919
Property, plant and equipment	24	970,538,655	1,228,419,894
Intangible assets	25	21,272,699	45,356,343
Right of use assets	25.1	598,978,557	855,183,154
Deferred tax assets	26	903,720,969	696,316,484
Other assets	27	2,760,586,570	2,732,423,840
<b>Total assets</b>		<b>221,109,150,524</b>	<b>199,978,929,186</b>
<b>Liabilities</b>			
Due to banks	28	21,796,679,350	22,050,009,005
Due to other customers	29	172,882,632,278	149,599,829,047
Debt issued and other borrowed funds	30	2,000,000,000	4,707,852,534
Current tax liabilities	31	378,203,555	448,881,448
Other liabilities	32	6,154,443,776	5,970,920,446
Retirement benefit obligation	33	2,782,874,624	2,236,115,128
<b>Total liabilities</b>		<b>205,994,833,583</b>	<b>185,013,607,608</b>
<b>Equity</b>			
Stated capital	34	8,047,229,930	8,047,229,930
Statutory reserve fund	35	762,462,998	742,261,195
Retained earnings	36	2,449,318,947	2,421,534,400
Other reserves	37	3,855,305,066	3,754,296,053
<b>Total shareholders' equity</b>		<b>15,114,316,941</b>	<b>14,965,321,578</b>
<b>Total equity and liabilities</b>		<b>221,109,150,524</b>	<b>199,978,929,186</b>
<b>Contingent liabilities and commitments</b>	38	<b>202,334,713</b>	<b>230,705,990</b>

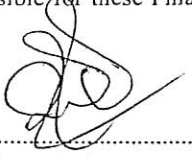
The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 71.

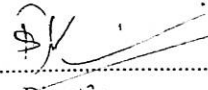
I certify that the financial statements are prepared in compliance with the requirements of the Banking Act No. 30 of 1988 and the Pradeshiya Sanwardana Banking Act No: 41 of 2008.

  
P.S. Edirisuriya  
Chief Financial Officer

  
R.M. Damitha Kumari  
General Manager / CEO (Actg.)

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

  
Chairman/ Director

  
Director

14 June 2021  
Colombo.

## STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
<b>Cash flow from operating activities</b>			
Profit before tax		2,060,859,032	2,960,257,709
Adjustment for:			
Non cash items included in profit before tax	41.	3,347,846,053	4,061,421,032
Changes in operating assets	42.	(23,217,047,432)	(7,274,252,820)
Changes in operating liabilities	43.	23,818,207,084	19,218,607,096
Contribution paid to defined benefit plans	33.1	(142,040,058)	(146,286,891)
Taxes on financial services		(1,276,059,797)	(1,659,200,694)
Tax Paid	31	(806,955,563)	(915,600,248)
<b>Net cash generated from/(used in) operating activities</b>		<b>3,784,809,318</b>	<b>16,244,945,185</b>
<b>Cash flows from investing activities</b>			
Purchase of Property, plant and equipment	24.	(45,854,295)	(217,854,701)
Net purchase of intangible assets	25.	(1,532,923)	(13,815,989)
Investment in Debenture		(500,000,000)	-
Investment in Fixed deposits (more than three months)		9,300,148,156	2,287,604,755
Proceeds from the sale of property, plant and equipment		888,491	4,203,104
Received Dividend Income		11,220	-
<b>Net cash (used in)/from investing activities</b>		<b>8,753,660,649</b>	<b>2,060,137,169</b>
<b>Cash flows from financing activities</b>			
Operating lease interest expense		-	(81,828,219)
Payment of principal of Operating Lease		(318,229,934)	(276,245,501)
Net proceeds from the Term Loans		(630,783,966)	7,534,500,000
Redemption of Debentures		(2,500,000,000)	-
Interest paid on debentures	30.1	(207,852,534)	(535,784,685)
<b>Net cash from financing activities</b>		<b>(3,656,866,435)</b>	<b>6,640,641,595</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>8,881,603,533</b>	<b>24,945,723,949</b>
Cash & cash equivalents at the beginning of the year		34,584,740,669	9,639,016,719
<b>Cash and cash at the end of the year</b>		<b>43,466,344,201</b>	<b>34,584,740,669</b>
<b>Reconciliation of Cash &amp; Cash Equivalents</b>			
Cash and cash equivalent	17.	3,758,858,141	2,750,187,219
Favorable balances with banks			
Placements with Banks	18	8,436,353,244	9,798,274,942
Fixed deposits less than three months	21.2	31,546,908,781	22,571,266,384
Unfavorable balances with banks		(275,775,965)	(534,987,877)
		<b>43,466,344,201</b>	<b>34,584,740,669</b>

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 06 to 71.

Pradeshia Sanwardana Bank

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Stated Capital Note 34 Rs.	Statutory Reserve Fund Note 35 Rs.	Special Reserve Fund Note 37 Rs.	General Reserve Fund Note 37 Rs.	Retained Earnings Note 36 Rs.	Total Rs.
<b>Balance as at 01st January 2019</b>	8,047,229,930	717,331,468	571,721,796	3,057,925,624	2,315,905,812	14,710,114,630
<b>Total Comprehensive Income for the year</b>						
Profit for the year	-	-	-	-	498,594,531	498,594,531
Other comprehensive Income	-	-	-	-	(80,468,366)	(80,468,366)
<b>Total comprehensive income for the year</b>	-	-	-	-	418,126,165	418,126,165
<b>Transactions with equity holders, recognized directly in equity</b>						
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
<b>Transactions with equity holders, recognized directly in equity</b>	-	24,929,727	24,929,727	99,718,906	(312,497,577)	(162,919,217)
<b>Balance as at 31st December 2019</b>	<b>8,047,229,930</b>	<b>742,261,195</b>	<b>596,651,523</b>	<b>3,157,644,530</b>	<b>2,421,534,400</b>	<b>14,965,321,578</b>
<b>Balance as at 01st January 2020</b>	8,047,229,930	742,261,195	596,651,523	3,157,644,530	2,421,534,400	14,965,321,578
<b>Total Comprehensive Income for the year</b>						-
Profit for the year	-	-	-	-	404,036,052	404,036,052
Other comprehensive Income	-	-	-	-	(255,040,689)	(255,040,689)
<b>Total comprehensive income for the year</b>	-	-	-	-	148,995,363	148,995,363
<b>Transactions with equity holders, recognized directly in equity</b>						-
Issued stated capital	-	-	-	-	-	-
Divident Paid					-	-
Transferred to Statutory Reserve Fund	-	20,201,803	-	-	(20,201,803)	-
Transferred to Special Reserve Fund	-	-	20,201,803	-	(20,201,803)	-
Transferred to General Reserve Fund	-	-	-	80,807,210	(80,807,210)	-
<b>Transactions with equity holders, recognized directly in equity</b>	-	20,201,803	20,201,803	80,807,210	(121,210,816)	-
<b>Balance as at 31st December 2020</b>	<b>8,047,229,930</b>	<b>762,462,998</b>	<b>616,853,326</b>	<b>3,238,451,740</b>	<b>2,449,318,947</b>	<b>15,114,316,941</b>

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 06 to 71.

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

Permanent, training and contract staff strength of the bank as at 31 December 2020 was 3312 (3,469 as at 31 December 2019).

### **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, commercial, livestock, fisheries activities and empowerment of women, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

### **1.3 Director's Responsibility for Financial Statements**

The Board of Directors is responsible for the preparation and presentation of these Financial Statements of the Bank, in compliance with provisions of the Pradeshiya Sanwardhana 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 2020 were authorized for issue by the Board of Directors on 14 June 2021.

## **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 obligations are actuarially valued and recognized as the present value of the defined benefit obligation.
- Financial assets held-for-trading are measured at fair value.

#### **2.1.1 Changes in accounting policies and disclosures**

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



**SLFRS 16 - Leases**

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

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

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

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

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

***Leases previously accounted as operating leases***

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

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

**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.

#### **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.

### **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 a reasonable period. Pradeshiya Sanwardana Bank is required to reassess assets and liabilities merged as of 1 April 2019 and adjust merger reserve accordingly.

## **2.2 Statement of Compliance**

The Financial Statements, as at 31 December 2020 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto.

## **2.3 Functional and Presentation Currency**

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

## **2.4 Presentation of Financial Statements**

The items of the Bank presented in their Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 45.

## **2.5 Materiality & Aggregation**

In compliance with LKAS 01 – “Presentation of Financial Statements”, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

## **2.6 Statement of Cash Flow**

The cash flow statement has been prepared by using The Indirect Method in accordance with the Sri Lanka Accounting Standard - LKAS 7 – “Statement of Cash Flows”. Cash and cash equivalents comprise cash in hand and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Details of cash and cash equivalents are given in Note 17, Note 18 and Note 21.2 to Financial Statements.

Cash and cash equivalents include cash in hand, other bank balances, Placement with banks, Investments in Fixed deposits (less than 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.

## **2.8 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of Financial Statements of the Bank in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank’s accounting policies, management has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank’s control and are reflected in the assumptions if and when they occur.

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

### 2.8.1 Going Concern

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

### 2.8.2 Impairment Losses on Loans and Advances

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

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

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

### 2.8.3 Taxation

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

Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, which results in adjustments to tax income and expenses and deferred tax amounts that were initially recorded in the Financial Statements. Note 14, Note 26 and Note 31.

### 2.8.4 Defined Benefit Plans

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

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

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



**2.8.5 Useful Lifetime of the Property and Equipment**

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

**2.8.6 Commitments and Contingencies**

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

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

**2.8.7 Fair value of Financial instruments**

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

**3. ACCOUNTING POLICY AND STANDARD INTERPRETATION****3.1 Summary of Significant Accounting Policies**

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

**3.1.1 Financial Instruments - Initial Recognition and Measurement****3.1.1.1. Date of recognition**

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

**3.1.1.2. Initial Measurement of Financial Instruments**

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

**3.1.1.3. Day 1 profit or loss**

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

**3.1.1.4. Classification and subsequent measurement of financial instruments****3.1.1.4.1 Financial assets**

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

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

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

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

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

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

The details of these conditions are outlined below.

**3.1.1.4.1.1(a) Business model assessment**

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

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

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

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

**3.1.1.4.1.1(b) The SPPI test**

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

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

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

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

**3.1.1.4.1.2 Financial assets fair value through profit or loss**

Financial assets fair value through profit or loss comprise:

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

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

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

**3.1.1.4.1.2(a) Financial investments - for trading**

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

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

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

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

**3.1.1.4.1.3 Financial assets measured at fair value through other comprehensive income**

Investment in equity instruments that are neither trading financial assets recognised through profit or loss, nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 "Business Combination" applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by Management due to long term nature of investment. For portfolios where

Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in the Income Statement as net trading gain/(loss) when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

#### **3.1.1.4.2 Financial liabilities**

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

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

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

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

##### **3.1.1.4.2.2 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 2020.

**3.1.1.6. De-recognition of financial assets and liabilities****3.1.1.6.1 De-recognition due to substantial modification of terms and conditions**

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

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

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

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

**3.1.1.6.2 De-recognition other than for substantial modification****3.1.1.6.2(a) Financial assets**

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

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

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

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

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

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

A transfer only qualifies for de-recognition if either:

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

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

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

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

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

### **3.1.1.6.2(b) Financial liabilities**

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

### **3.1.1.7 Overview of the ECL principles**

Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under SLFRS 9.

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

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

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

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

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

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

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

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

### 3.1.1.7.1 The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash 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 recognized and is still in the portfolio.

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

LGD : The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

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

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

The mechanics of the ECL method are summarized below:

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

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

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

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

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

### **3.1.1.7.2 Calculations of ECL for individually significant loans**

The Bank first assesses ECLs individually for financial assets that are individually significant to the Bank. In the event the Bank determines that such assets are not impaired (Not in stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

### **3.1.1.7.3 Debt instruments measured at fair value through OCI**

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

### **3.1.1.7.4 Purchased or originated credit impaired financial assets (POCI)**

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



**3.1.1.7.5 Forward looking information**

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

- GDP growth
- Inflation rate
- Interest Rates
- Exchange Rate US\$:Rs
- Unemployment rates

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

- Average LTV
- Government Policies
- Status of the Industry Business
- Regulatory impact

**3.1.1.7.6 Collateral valuation**

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

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

### 3.1.1.7.10 Foreclosed Properties

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

### 3.1.1.7.11 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of financial position.

### 3.1.1.8 Determination of fair value

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

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

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

### 3.1.2. Property and Equipment

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

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

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

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

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

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

### 3.1.3. Leasing

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

#### 3.1.3.1. Finance Leases -Bank as a lessee

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

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

**3.1.3.2. Operating leases (Before 1<sup>st</sup> January 2019)****Bank as a lessor**

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

**3.1.4. Intangible Assets**

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

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

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

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

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

- Computer software 3 years

**3.1.5. Impairment of Non-financial Assets**

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

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

**3.1.6. Financial Guarantees**

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

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

**3.1.7. Pension Benefits****3.1.7.1. Defined Benefit Pension Plan-Gratuity**

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

**3.1.7.2. Gratuity**

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

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31st December 2020 by Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary using the projected unit credit method.

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

Funding Arrangements: The Gratuity liability is not externally funded.

**3.1.7.3. Defined Contribution Pension Plan**

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

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by

the employees and is recorded as an expense under ‘personnel expenses’ as and when they become due. Unpaid contributions are recorded as a liability.

**1. Employees’ Provident Fund**

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

**2. Employees’ Trust Fund**

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

**3.1.8. Provisions**

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

**3.1.9. Recognition of Income and Expenses**

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

**3.1.9.1. Interest and Similar Income and Expense**

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

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

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

### **3.1.9.2. Fees and Commission Income**

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

### **3.1.9.3. Fee Income Earned from Services that are Provided over a Certain Period of Time**

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

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

### **3.1.9.4. Taxation**

As per Sri Lanka Accounting Standard - LKAS 12 – “Income Taxes”, tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the Income Statement except to the extent it relates to items recognized directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognized in Equity or in OCI.

### **3.1.9.5. Current Tax**

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

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

### **3.1.9.6. Deferred Tax**

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

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credit 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 utilized except:

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

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

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

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the Income Statement.

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

#### **3.1.9.7. VAT on Financial Services**

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

#### **3.1.9.8. Nation Building Tax (NBT) on Financial Service**

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

#### **3.1.9.9. Withholding Tax (WHT) on Dividends**

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

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

#### **3.1.9.10. Economic Service Charge (ESC)**

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

**3.1.9.11. Debts Repayments Levy (DRL)**

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

**3.1.9.12. Crop Insurance Levy (CIL)**

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

**3.1.10. Dividends on Ordinary Shares**

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

**3.1.11. Earnings per Share (EPS)**

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

**3.1.12. SLFRS 15 – Revenue from Contracts with Customers**

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

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

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

**4. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2020**

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 2020. 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.



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

<b>5. GROSS INCOME</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Interest income (Note 6.1)	23,182,459,141	26,357,071,298
Fee and commission income (Note 7)	1,143,097,671	1,134,421,656
Net trading gain/(loss) (Note 8)	23,135,814	4,757,039
Other operating income (Note 9)	5,554,243	11,571,062
<b>Total Gross Income</b>	<b>24,354,246,869</b>	<b>27,507,821,054</b>
<b>6. NET INTEREST INCOME</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
<b>6.1 Interest Income</b>		
Placements with banks	532,551,255	735,270,427
Financial assets at amortised		
Loans and receivables from other customers	19,130,733,803	21,735,964,322
Debt & other instruments	3,519,174,083	3,885,836,549
<b>Total interest income</b>	<b>23,182,459,141</b>	<b>26,357,071,298</b>
<b>6.2 Interest expenses</b>		
Due to banks	(1,226,169,605)	(1,308,319,793)
Due to other customers	(10,949,016,609)	(12,493,387,754)
Interest expense on lease liabilities	(119,194,618)	(102,173,728)
<b>Total interest expenses</b>	<b>(12,294,380,832)</b>	<b>(13,903,881,276)</b>
<b>Net interest income</b>	<b>10,888,078,309</b>	<b>12,453,190,022</b>
<b>7. NET FEE AND COMMISSION INCOME</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Fee and commission income	1,143,097,671	1,134,421,656
Fee and commission expenses	(271,935,223)	(278,304,299)
<b>Net fee and commission income</b>	<b>871,162,448</b>	<b>856,117,357</b>
<b>Comprising</b>		
Loans	850,809,944	852,512,689
Trade and remittances	6,844,618	7,630,593
Deposits	(251,912,550)	(253,121,115)
Others	265,420,436	249,095,191
<b>Net fee and commission income</b>	<b>871,162,448</b>	<b>856,117,357</b>
<b>8. NET TRADING GAIN/(LOSS)</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Net mark to market loss - equity securities	22,160	(7,400)
Financial liabilities designated at fair value through profit or loss	23,102,434	370,699
Dividend income	11,220	4,393,740
<b>Total</b>	<b>23,135,814</b>	<b>4,757,039</b>



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

<b>9. OTHER OPERATING INCOME (NET)</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Gain/(Loss) on sale of property, plant and equipment	(349,129)	3,811,675
ATM Income	5,719,052	7,433,448
Recoveries of NPL loans ( Written Off)	184,320	325,939
<b>Other operating income (net)</b>	<b>5,554,243</b>	<b>11,571,062</b>
<b>10. IMPAIRMENT CHARGES</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Placement with Banks (Note 18.1)	32,450	32,429
<b>Loans and receivables from other customer</b>		
Collective impairment (Note 20.2)	(1,093,943,485)	(1,076,946,691)
Individual impairment (Note 20.2)	(918,981,343)	(1,324,690,485)
<b>Financial assets at amortised cost-Debt &amp; other instruments</b>		
Debentures (Note 21.1.2)	(8,481)	(1,200)
Investment in Fixed Deposit (Note 21.2.2)	5,601,260	(6,668,755)
Credit related commitment and contingencies	147,522	(474,152)
Other Assets Impairment	(3,776,986)	-
<b>Net impairment (charge) / reversal for loans and other losses</b>	<b>(2,010,929,062)</b>	<b>(2,408,748,853)</b>
<b>11. PERSONNEL EXPENSES</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Salary and bonus	3,901,689,870	3,670,368,673
Contributions to EPF/ETF	608,545,771	587,605,614
Contributions to defined benefit plans	389,587,045	323,313,062
Others	1,083,539,351	1,350,338,623
<b>Total</b>	<b>5,983,362,037</b>	<b>5,931,625,972</b>
<b>12. OTHER EXPENSES</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Directors' emoluments	4,014,000	3,683,748
Auditors' remunerations	2,800,000	4,693,515
Professional and legal expenses	7,490,055	14,954,312
Office administration and establishment expenses	812,296,503	1,104,581,162
Computerization expenses	140,863,838	122,361,980
Business tax expenses	956,266	2,715,109
Other commission paid	147,460	74,325
Deposit Insurance Premium	136,004,590	145,699,228
Crop insurance levy	8,565,973	4,893,954
Staff security deposits interest	2,849,238	4,010,435
Capital loss on pawning advance	-	12,501
<b>Total</b>	<b>1,115,987,925</b>	<b>1,407,680,268</b>
<b>13. TAXES ON FINANCIAL SERVICES &amp; DRL</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Nation building tax	-	123,625,704
Value added tax	1,047,410,630	1,012,948,950
Debt repayment levy	-	601,522,646
<b>Total</b>	<b>1,047,410,630</b>	<b>1,738,097,299</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**14. TAX EXPENSES**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Income taxation		
Taxation based on profits for the year (Note 14.1)	723,625,797	890,648,620
(Over)/ Under provision in respect of 2019/2020 year	12,651,872	-
Charge/(Reversal) of Temporary Differences (Note 26.2)	(126,865,320)	(167,082,742)
<b>Total</b>	<b>609,412,349</b>	<b>723,565,878</b>

**14.1 Reconciliation of tax expenses**

<b>For the Year ended 31st December</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>Profit/(loss) before tax</b>	1,013,448,401	1,222,160,409
(Less): Dividend	(11,220)	(4,393,740)
Add: Tax effect of expenses that are not deductible for tax purposes	3,914,717,164	5,158,223,496
(Less): Tax effect of expenses that are deductible for tax purposes	(1,913,046,856)	(3,195,102,236)
<b>Taxable profit</b>	<b>3,015,107,489</b>	<b>3,180,887,929</b>
Income tax for the period (taxable profit @ applicable tax rate)	24%	28%
<b>Current Tax expense for the period</b>	723,625,797	890,648,620
Deferred tax charge/(reversal) (Note 26.2)	(126,865,320)	(167,082,742)
<b>Income tax expense</b>	596,760,477	723,565,878
(Over)/ Under provision in respect of 2019/2020 year	12,651,872	-
<b>Income tax expense</b>	<b>609,412,349</b>	<b>723,565,878</b>
<b>Effective tax rate</b>	<b>60%</b>	<b>59%</b>

**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).

<b>For the Year ended 31st December</b>	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Net profit attributable to ordinary equity holders of the Bank	404,036,052	498,594,531
Net profit attributable to ordinary equity holders	404,036,052	498,594,531
	<i>Numbers</i>	<i>Numbers</i>
Weighted average number of ordinary shares in issue	545,107,049	545,107,049
<b>Basic earnings per ordinary share</b>	<b>0.74</b>	<b>0.91</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

## a. Bank - Current year (2020)

As at 31st December	Note	FVTPL	AC	FVOCI	Total
		Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>					
Cash and cash equivalent	17	-	3,758,858,141	-	3,758,858,141
Placements with banks	18	-	8,436,353,244	-	8,436,353,244
Equity Instruments at fair value through profit or loss	19	145,160	-	-	145,160
Financial assets at amortised cost-Loans and receivables from other customers	20	-	156,694,052,473	-	156,694,052,473
Financial investments at amortised cost-Debt & other instruments	21	-	46,962,354,137	-	46,962,354,137
Equity Instruments at fair value through other comprehensive income	22	-	-	2,289,919	2,289,919
Other financial assets	27	-	1,788,634,829	-	1,788,634,829
<b>Total financial assets</b>		<b>145,160</b>	<b>217,640,252,824</b>	<b>2,289,919</b>	<b>217,642,687,903</b>

## b. Bank - Current year (2020)

As at 31st December	Note	Amortized cost	Total
		Rs.	Rs.
<b>LIABILITIES</b>			
Due to banks	28	21,796,679,350	21,796,679,350
Due to other customers	29	172,882,632,278	172,882,632,278
Debt issued and other borrowed funds	30	2,000,000,000	2,000,000,000
Other liabilities	32	4,175,418,552	4,175,418,552
<b>Total financial liabilities</b>		<b>200,854,730,180</b>	<b>200,854,730,180</b>

## a. Bank - Previous year (2019)

As at 31st December	Note	FVTPL	AC	FVOCI	Total
		Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>					
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
Financial assets held-for-trading/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 assets at amortised cost-Debt & other instruments	21	-	45,664,745,400	-	45,664,745,400
Equity Instruments at fair value through other comprehensive income	22	-	-	2,289,919	2,289,919
Other financial assets	27	-	1,633,841,628	-	1,633,841,628
<b>Total financial assets</b>		<b>123,000</b>	<b>196,052,658,180</b>	<b>2,289,919</b>	<b>196,055,071,099</b>

## b. Bank - Previous year (2019)

As at 31st December	Note	Amortized cost	Total
		Rs.	Rs.
<b>LIABILITIES</b>			
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
<b>Total financial liabilities</b>		<b>181,311,961,240</b>	<b>181,311,961,240</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**17. CASH AND CASH EQUIVALENT**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Cash in hand	770,872,112	627,224,228
Other bank balances	2,987,986,029	2,122,962,990
<b>Total</b>	<b>3,758,858,141</b>	<b>2,750,187,219</b>

**18. PLACEMENTS WITH BANKS**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Money market placements	8,436,353,244	9,798,274,942
Less : Impairment for expected credit losses (Note 18.1)	0	(32,450)
<b>Total</b>	<b>8,436,353,244</b>	<b>9,798,242,492</b>

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

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Money market placements	8,436,353,244	-	-	8,436,353,244
Impairment for expected credit losses (18.2)	0	-	-	0
	<u>8,436,353,244</u>	<u>-</u>	<u>-</u>	<u>8,436,353,244</u>

**As at 31 December 2019**

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

**18.2 Impairment for expected credit losses- Placements with banks**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Balance as at 1st January	32,450	64,879
Net Reversal for the year (Note 10)	(32,450)	(32,429)
	<u>(0)</u>	<u>32,450</u>

**19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2020</b>			<b>2019</b>		
	<b>No. of</b>	<b>Cost of</b>	<b>Market</b>	<b>No. of</b>	<b>Cost of</b>	<b>Market</b>
	<b>Shares</b>	<b>Investme</b>	<b>Value</b>	<b>Shares</b>	<b>Investment</b>	<b>Value</b>
		<b>nt</b>	<b>Rs.</b>		<b>Rs.</b>	<b>Rs.</b>
		<b>Rs.</b>				
People's Merchant Bank PLC	600	6,600	5,160	600	6,600	6,000
Seylan Development PLC	10,000	109,000	140,000	10,000	109,000	117,000
	<u>10,600</u>	<u>115,600</u>	<u>145,160</u>	<u>10,600</u>	<u>115,600</u>	<u>123,000</u>

**19.1 Movement during the year**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>As at 31st December</b>		
Balance as at 01 January	123,000	115,600
Change in fair value during the year	22,160	7,400
Balance as at 31 December	<u>145,160</u>	<u>123,000</u>

**20. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Gross loans and receivables	167,099,049,722	144,693,550,841
(Less): Staff loan fair value adjustment	(726,321,226)	(820,595,233)
	166,372,728,496	143,872,955,608
(Less): Collective impairment charges (Note 20.2)	(7,116,566,891)	(6,024,186,378)
(Less): Individual impairment charges (Note 20.2)	(2,562,109,132)	(1,643,127,789)
<b>Net loans and receivables from other customers</b>	<b>156,694,052,473</b>	<b>136,205,641,441</b>

**20.1 Analysis**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
By product		
Pawning	15,433,723,728	13,746,633,225
Staff loans	4,122,588,706	3,560,904,130
Leasing	961,273,886	888,834,092
Short-term	10,307,093,390	10,200,684,495
Long-term	136,274,370,012	116,296,494,898
<b>Gross total</b>	<b>167,099,049,722</b>	<b>144,693,550,841</b>
By currency		
Sri Lankan rupee	167,099,049,722	144,693,550,841
<b>Gross total</b>	<b>167,099,049,722</b>	<b>144,693,550,841</b>
By industry		
Agriculture and fishing	48,067,426,767	29,289,222,632
Manufacturing	27,926,498,149	22,724,128,191
Leasing	961,273,886	888,834,092
Transport	132,915,217	165,435,909
Construction /housing	22,715,647,404	23,617,507,238
Traders	30,585,377,970	24,260,590,030
Others (consumptions/against deposit/staff/tourism)	36,709,910,328	43,747,832,749
<b>Gross total</b>	<b>167,099,049,722</b>	<b>144,693,550,841</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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

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

	Individual	Collective	Total
<b>Balance as at 1st January 2019 (SLFRS 9)</b>	<b>318,437,304</b>	<b>3,179,680,360</b>	<b>3,498,117,664</b>
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
<b>Balance as at 31st December 2019</b>	<b>1,643,127,789</b>	<b>6,024,186,378</b>	<b>7,667,314,167</b>
Net charge to profit or loss	918,981,343	1,093,943,485	2,012,924,828
Other movements / Write off	-	(1,562,972)	(1,562,972)
	2,562,109,132	7,116,566,892	9,678,676,023
Collective Impairment not recognized	-	616,853,326	616,853,326
<b>Balance as at 31st December 2020</b>	<b>2,562,109,132</b>	<b>7,733,420,218</b>	<b>10,295,529,350</b>

**Total Impairment**

The above impairment provisions were estimated based on five years historical data.

However, the impairment provision is recognised net of the funds available in the Special Reserve fund ( Created to Provide for bad and doubtful debts of the bank as per the section 23 of Pradeshia Sanwardhana Bank act No. 41 of 2008 ) as disclosed above.

## 20.3 Movement in Impairment for expected credit losses based on Exposure to credit risk

A further analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below.

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1st January 2020	1,548,420,771	1,328,104,480	4,790,788,916	7,667,314,167
Other movements / Write off	-	-	(1,562,972)	(1,562,972)
Net charge to profit or loss	(6,209,186)	(64,894,854)	2,084,028,868	2,012,924,828
Balance as at 31st December 2020	1,542,211,585	1,263,209,626	6,873,254,812	9,678,676,023

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1st January 2019	1,016,251,838	928,793,193	1,553,072,633	3,498,117,664
Other movements / Write off	-	-	(33,815,719)	(33,815,719)
Merged of LDB Balances at 01.04.2019	-	-	1,801,375,047	1,801,375,047
Net charge to profit or loss	532,168,933	399,311,287	1,470,156,955	2,401,637,175
Balance as at 31st December 2019	1,548,420,771	1,328,104,480	4,790,788,916	7,667,314,167

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

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired loans	-	-	6,813,320,247	6,813,320,247
Loans subjected to collective impairment				
Term Loan Other	3,473,771,016	1,656,286,430	634,702,825	5,764,760,271
Term Loan Industrial	12,260,990,458	1,609,855,391	2,751,590,059	16,622,435,908
Term Loan Commercial	19,552,322,995	1,913,932,501	3,441,780,377	24,908,035,872
Term Loan Agriculture	19,571,403,730	1,329,777,877	2,398,768,697	23,299,950,303
Term Loan Housing	32,185,040,489	3,467,504,622	3,812,782,628	39,465,327,739
Refinance	18,350,621,409	2,951,329,734	1,907,414,377	23,209,365,521
Liyaisura	206,746	65,801	41,347,889	41,620,436
Pawning	14,557,566,695	752,431,314	102,553,168	15,412,551,176
Leasing	512,945,924	152,216,453	166,865,500	832,027,877
Staff loans	4,099,302,853	-	23,285,853	4,122,588,706
Loans Against Deposits	6,481,657,209	-	-	6,481,657,209
SME	-	-	125,408,455	125,408,455
Gross loans to & receivable from other customers	131,045,829,525	13,833,400,124	22,219,820,073	167,099,049,722
Impairment for expected credit losses (20.3)	(1,542,211,585)	(1,263,209,626)	(6,873,254,812)	(9,678,676,023)
Net loans to & receivable from other customers (before zero rated loan and staff loan adjustments)	129,503,617,939	12,570,190,498	15,346,565,261	157,420,373,698



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Individually impaired loans	-	-	2,167,069,767	2,167,069,767
Loans subjected to collective impairment				
Term Loan Other	2,244,069,768	163,572,465	150,428,444	2,558,070,676
Term Loan Industrial	8,648,858,829	4,781,267,666	2,263,175,309	15,693,301,803
Term Loan Commercial	13,170,138,143	5,630,911,781	2,679,471,299	21,480,521,223
Term Loan Agriculture	13,484,326,089	4,260,136,830	1,982,276,556	19,726,739,475
Term Loan Housing	29,413,240,500	5,202,725,506	3,081,110,334	37,697,076,341
Refinance	13,449,431,399	5,479,756,564	1,460,699,739	20,389,887,703
Liyaisura	176,702	241,926	44,670,618	45,089,246
Pawning	12,994,119,322	613,994,426	36,323,732	13,644,437,480
Leasing	614,413,902	125,161,486	149,258,704	888,834,092
Staff loans	3,699,555,923	-	-	3,699,555,923
Loans Against Deposits	6,564,153,380	-	-	6,564,153,380
SME	-	-	138,813,731	138,813,731
Gross loans to & receivable from other customers	104,282,483,957	26,257,768,650	14,153,298,234	144,693,550,840
Impairment for expected credit losses (20.3)	(1,548,420,771)	(1,328,104,480)	(4,790,788,916)	(7,667,314,167)
Net loans to & receivable from other customers (before zero rated loan and staff loan adjustments)	102,734,063,186	24,929,664,170	9,362,509,318	137,026,236,673

**20.5 Lease Rentals Receivable**

	2020	2019
<b>Gross Lease Rentals Receivable</b>		
Less than 1 Year	245,011,489	583,553,978
More than 1 Year	856,626,316	445,417,702
<b>Total Lease Rentals Receivable</b>	<b>1,101,637,804</b>	<b>1,028,971,680</b>
Less : Unearned Interest Income	(140,363,918)	(140,137,588)
<b>Gross Lease Rentals Receivable</b>	<b>961,273,886</b>	<b>888,834,092</b>
Less: Provision for Impairment Losses	(124,092,019)	(314,014,386)
<b>Net Lease Rentals Receivable</b>	<b>837,181,867</b>	<b>574,819,706</b>

**21. FINANCIAL INVESTMENTS AT AMORTISED COST-DEBT & OTHER INSTRUMENTS**

As at 31st December	2020 Rs.	2019 Rs.
Debentures- Quoted (Note 21.1)	1,025,565,069	516,934,932
Government debt securities-treasury bills & bonds	3,771,096,580	2,663,205,000
Investment in Fixed Deposits (Note 21.2)	42,167,885,800	42,492,391,559
<b>Sub total</b>	<b>46,964,547,449</b>	<b>45,672,531,491</b>
Less : Impairment for expected credit losses-Debentures (Note 21.1.1)	(18,501)	(10,020)
Less : Impairment for expected credit losses-Fixed Deposits (Note 21.2.1)	(2,174,811)	(7,776,071)
<b>Total</b>	<b>46,962,354,137</b>	<b>45,664,745,400</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 21.1 Debentures- Quoted

	No of Debentures	2020 Cost of Investment Rs.	Amortized Cost Rs.	No of Debentures	2019 Cost of Investment Rs.	Amortized Cost Rs.
Commercial Bank of Ceylon PLC	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,934,932
DFCC	5,000,000	500,000,000	508,630,137			
<b>Total</b>	<b>5,000,000</b>	<b>500,000,000</b>	<b>1,025,565,069</b>	<b>5,000,000</b>	<b>500,000,000</b>	<b>516,934,932</b>

## 21.1.1 Analysis of Debentures based on Exposure to Credit Risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Debentures- Quoted	1,025,565,069	-	-	1,025,565,069
Impairment for expected credit losses (21.1.2)	(18,501)	-	-	(18,501)
	<u>1,025,546,568</u>	<u>-</u>	<u>-</u>	<u>1,025,546,568</u>
<b>As at 31 December 2019</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Debentures- Quoted	516,934,932	-	-	516,934,932
Impairment for expected credit losses (21.1.2)	(10,020)	-	-	(10,020)
	<u>516,924,912</u>	<u>-</u>	<u>-</u>	<u>516,924,912</u>

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

## 21.1.2 Impairment for expected credit losses- Debentures Quoted

	2020	2019
Balance as at 1st January	10,020	8,820
Net Charge (Reversal) for the year	8,481	1,200
	<u>18,501</u>	<u>10,020</u>

## 21.2 Investment in Fixed Deposits

As at 31st December	2020 Rs.	2019 Rs.
Fixed deposits less than three months	31,546,908,781	22,571,266,384
Fixed deposits more than three months	10,620,977,019	19,921,125,175
<b>Total</b>	<u>42,167,885,800</u>	<u>42,492,391,559</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Investment in Fixed Deposit	42,167,885,800	-	-	42,167,885,800
Impairment for expected credit losses (21.2.2)	(2,174,811)	-	-	(2,174,811)
	42,165,710,989	-	-	42,165,710,989
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

## 21.2.2 Impairment for expected credit losses- Investment in Fixed Deposits

2020 2019

Balance as at 1st January	7,776,071	1,107,316
Net Charge (Reversal) for the year	(5,601,260)	6,668,755
	2,174,811	7,776,071

## 22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31st December	2020 Rs.	2019 Rs.
Unquoted Equity Securities (22.1)	2,289,919	2,289,919
	2,289,919	2,289,919

## 22.1 Unquoted equity Securities

As at 31st December	2020			2019		
	No. of Shares/ Percentage	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
CRIB	1,821	2,289,919	2,289,919	1,821	2,289,919	2,289,919
Total	1,821	2,289,919	2,289,919	1,821	2,289,919	2,289,919

**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 Rs. 4,176 Mn effective on 31/12/2018 for the pending elimination of the investment in the share capital of LDB held by the General Treasury. Since, the purpose of this transaction was to facilitate the merger between PSB and LDB, the General Treasury did not expect PSB to maintain a parent -subsidiary relationship with LDB. Along with the said purpose, the Secretary to the Treasury has granted the approval on 10th January 2019, to go ahead with the merger of LDB with PSB at a purchase consideration of Rs 4,176 Mn subject to any further upward revisions depend on future circumstances.

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

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

	<b>01-Apr-19</b>
	<b>Rs</b>
<b>Assets</b>	
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
	<b>8,500,118,385</b>
<b>Liabilities</b>	
Deposit liabilities	276,021,101
Interest bearing loans & borrowings	3,017,543,455
Provision for taxation	121,269,000
Trade and other payables	123,014,603
Treasury Finance - Other	403,134,631
Refinance loans payable	60,829,000
Retirement benefit obligations	29,641,368
Contingent provisioning	225,000,000
	<b>4,256,453,158</b>
Carrying amount of identifiable net assets acquired	<b>4,243,665,227</b>
<b>Results of the merger of above entities are as follows:</b>	
Value of consideration paid / Investment	4,176,292,930
Carrying amount of identifiable net assets merged	(4,243,665,227)
<b>Resulting excess</b>	<b>(67,372,297)</b>

Since this business combination is within entities under the common control of the Ministry of Finance, no goodwill is recognized and upon the merger, the excess of LKR.30,627,630/- was recognized in equity of Pradeshiya Sanwardana Bank and Rs. 36,744,667/- recognised in 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.

However, PSB is of the view that a firm decision cannot be arrived as at 31/12/2020 on additional provisioning in view of pending litigation against former LDB and possible tax assessments which may be issued by the tax authorities in the near future.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 24. PROPERTY, PLANT AND EQUIPMENT

## Property and Equipment

	2020								
	Land and Buildings	Leasehold properties	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Partition & Fittings	Other	Total
	Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>2020(Current year) Cost</b>									
Opening balance at 01/01/2020	635,276,706	6,540,518	725,204,656	1,327,577,095	409,392,411	1,859,276	385,201,289	819,424	3,491,871,376
Additions	-	-	5,259,020	21,034,963	19,000	3,845,110	15,696,201	-	45,854,295
Disposals	-	-	(19,827,862)	(8,735,854)	(10,930)	-	(7,069,389)	-	(35,644,035)
Written off	(185,808)	-	-	-	-	(116,645)	(199,567)	-	(502,020)
Transfers during the Year	-	(6,540,518)	-	-	-	-	-	-	(6,540,518)
Reclassification Adjustments	-	-	(108,445)	380,500	-	(431,675)	-	-	(159,620)
<b>Closing balance at 31/12/2020</b>	<b>635,090,898</b>	<b>-</b>	<b>710,527,368</b>	<b>1,340,256,705</b>	<b>409,400,481</b>	<b>5,156,066</b>	<b>393,628,535</b>	<b>819,424</b>	<b>3,494,879,478</b>
<b>Finance Lease</b>									
Opening balance at 01/01/2020	-	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-	-	-
<b>Closing balance at 31/12/2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Less): Accumulated depreciation</b>									
Opening balance at 01/01/2020	160,113,172	3,869,817	526,354,256	941,786,408	381,731,899	-	249,595,931	-	2,263,451,482
Charge for the year	23,353,579	327,026	68,300,575	133,243,500	22,866,299	-	49,949,300	-	298,040,279
Disposals	-	-	(19,827,386)	(8,732,114)	(10,928)	-	(5,904,265)	-	(34,474,692)
Written off	-	-	-	-	-	-	-	-	-
Transfers during the Year	-	(2,698,000)	-	-	-	-	-	-	(2,698,000)
Reclassification Adjustments	1,498,842	(1,498,842)	1,897	248,157	-	-	(228,300)	-	21,754
<b>Closing balance at 31/12/2020</b>	<b>184,965,594</b>	<b>-</b>	<b>574,829,342</b>	<b>1,066,545,951</b>	<b>404,587,270</b>	<b>-</b>	<b>293,412,666</b>	<b>-</b>	<b>2,524,340,823</b>
<b>Finance Lease</b>									
Opening balance at 01/01/2020	-	-	-	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-	-	-	-
Transfers during the Year	-	-	-	-	-	-	-	-	-
<b>Closing balance at 31/12/2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Less): Impairment charges</b>									
	-	-	-	-	-	-	-	-	-
<b>Net book value at 31/12/2020</b>	<b>450,125,304</b>	<b>-</b>	<b>135,698,026</b>	<b>273,710,754</b>	<b>4,813,211</b>	<b>5,156,066</b>	<b>100,215,869</b>	<b>819,424</b>	<b>970,538,655</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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

## 24.1 Property and Equipment

	2019							
	Land and Buildings	Computer, Hardware	Office, Equipment, Furniture and Fittings	Motor Vehicles	Working Progress	Partition & Fittings	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.			Rs.
<b>2019(Previous year) Cost</b>								
Opening balance at 01/01/2019	535,458,100	569,273,145	1,166,453,070	273,290,358	65,310,013	323,427,662	-	2,933,212,347
Merged of LDB balances as at 01.04.2019	33,034,049	74,690,361	90,748,602	34,159,860	-	19,815,041	819,424	253,267,338
Additions	9,054,154	84,775,603	80,616,960	-	820,184	42,587,800	-	217,854,701
Disposals	-	(3,534,454)	(10,369,704)	(1,982,206)	-	(91,121)	-	(15,977,486)
Write off	-	-	(403,581)	-	-	-	-	(403,581)
Transfers during the Year	64,270,921	-	-	103,924,400	(64,270,921)	-	-	103,924,400
Reclassification Adjustments	-	-	531,750	-	-	(538,092)	-	(6,342)
<b>Closing balance at 31/12/2019</b>	<b>641,817,225</b>	<b>725,204,656</b>	<b>1,327,577,095</b>	<b>409,392,411</b>	<b>1,859,276</b>	<b>385,201,289</b>	<b>819,424</b>	<b>3,491,871,377</b>
<b>Finance Lease</b>								
Opening balance at 01/01/2019	-	-	-	103,924,400	-	-	-	103,924,400
Additions	-	-	-	-	-	-	-	-
Transfer	-	-	-	(103,924,400)	-	-	-	(103,924,400)
<b>Closing balance at 31/12/2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Less): Accumulated depreciation</b>								
Opening balance at 01/01/2019	126,018,162	402,426,641	745,865,596	217,479,645	-	167,973,678	-	1,659,763,721
Merged of LDB balances as at 01.04.2019	13,887,672	60,302,792	69,714,923	32,621,194	-	10,325,452	-	186,852,032
Charge for the year	24,077,155	67,148,351	136,156,906	29,677,681	-	71,391,618	-	328,451,710
Disposals	-	(3,523,528)	(9,951,017)	(1,971,005)	-	(89,426)	-	(15,534,976)
Transfers during the Year	-	-	-	103,924,385	-	-	-	103,924,385
Reclassification Adjustments	-	-	-	-	-	(5,391)	-	(5,391)
<b>Closing balance at 31/12/2019</b>	<b>163,982,989</b>	<b>526,354,256</b>	<b>941,786,408</b>	<b>381,731,899</b>	<b>-</b>	<b>249,595,931</b>	<b>-</b>	<b>2,263,451,483</b>
<b>Finance Lease</b>								
Opening balance at 01/01/2019	-	-	-	101,587,422	-	-	-	101,587,422
Charge for the year	-	-	-	2,336,963	-	-	-	2,336,963
Transfers during the Year	-	-	-	(103,924,385)	-	-	-	(103,924,385)
<b>Closing balance at 31/12/2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Less): Impairment charges</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value at 31/12/2019</b>	<b>477,834,236</b>	<b>198,850,400</b>	<b>385,790,687</b>	<b>27,660,512</b>	<b>1,859,276</b>	<b>135,605,359</b>	<b>819,424</b>	<b>1,228,419,894</b>

**24. PROPERTY, PLANT AND EQUIPMENT (Contd...)****24.2 Fully Depreciated Property, Plant and Equipment**

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

<b>As at 31st December</b>	<b>2020</b>	<b>2019</b>
<b>Asset Class</b>	<b>Rs.</b>	<b>Rs.</b>
Building	3,562,414	1,611,373
Computer, Hardware	399,804,269	281,329,053
Office, Equipment, Furniture and Fittings	590,779,812	485,701,259
Motor Vehicles	366,060,714	247,613,529
Partition & Fittings	159,402,961	86,726,907
Software	111,460,789	-
	<u>1,631,070,959</u>	<u>1,102,982,122</u>

**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.

Pradeshiya Sanwardana Bank

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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

24.7 The details of freehold land and buildings held by the Bank as at 31st December 2020 are as follows:

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land	Cost of Building	Total Value	Accumulated Depreciation	Written down value
				Rs	Rs	Rs	Rs	Rs
<b>H/O - No 933, Kandy Rd, Wedamulla, Kelaniya</b>	24.0	5,375	March 5, 2012	80,419,000	139,371,952	219,790,952	49,810,684	169,980,269
<b>Central Province</b>								
Matale -No 62, Main Street, Matale	4.8	2,280	December 26, 2014	-	11,915,631	11,915,631	3,582,851	8,332,780
Dambulla - No734, Anuradhapura Road, Dambulla	8.2	2,210	December 18, 2003	565,000	2,286,908	2,851,908	2,086,803	765,105
Wilgamuwa -Hettipola, Wilgamuwa	38.0	1,740	August 24, 2009	-	7,581,277	7,581,277	4,902,077	2,679,200
Agarapathana - No158, Hoolbrook, Agarapathana	10.8	1,598	August 17, 2012	540,000	720,000	1,260,000	672,000	588,000
Naula - 26,Dambulla Road,Naula	20.0	1,640	February 25, 1998	2,471,252	8,600,539	11,071,791	2,887,550	8,184,241
Laggala-New Town -Laggala	40.0	3,261		-	23,565,250	23,565,250	1,872,308	21,692,942
<b>North Central Province</b>								
Mihinthalale - Trincomalee Road, Mihinthalale	20.0	6,359	30-Dec-05	0	8,859,427	8,859,427	663,640.01	2,223,027
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	March 19, 2013	-	16,192,223	16,192,223	6,476,889	9,715,334
Galenbindunuwewa - Pola Road, Galenbindunuwewa	70.0	1,687	March 14, 2013	-	3,124,975	3,124,975	1,903,328	1,221,647
Medirigiriya - Main Street, Madirigiriya	40.0	-	December 31, 2007	-	9,643,650	9,643,650	6,277,016	3,366,634
Siripura - New Town, Siripura	30.0	4,973	February 24, 2016	-	22,291,625	22,291,625	5,408,460	16,883,165
Thirappane - Kandy Road, Thirappane	65.4	8,030	December 8, 2016	379,869.25	46,150,602	46,530,471	5,350,210	41,180,261
No.343,Mosque Road,Stage 01,Anuradhapura					125,000	125,000	12,500	112,500
<b>North Western Province</b>								
Mawathagama - Kandy Road, Mawathagama	21.5	-	March 3, 2016	10,801,311		10,801,311	-	10,801,311
P/O Kurunegala - No 155, Negombo Rd, Kurunegala	14.0	8,484	December 29, 2004	-	18,200,366	18,200,366	9,729,752	8,470,614
Polpithigama - Kurunegala Road,Polpithigama	20.0	2,784	December 30, 2014	-	17,504,901	17,504,901	5,324,407	12,180,494
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	December 30, 2014	-	25,188,128	25,188,128	7,471,285	17,716,843
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	March 25, 2003	-	5,792,157	5,792,157	3,235,455	2,556,702
Nattandiya - Marawila Road, Naththandiya	15.7	1,200	February 11, 2003	-	36,799,082	36,799,082	4,298,113	32,500,969
Puttlam - Kurunegala Road,Puttlam	51.0	1,250	June 26, 2006	-	3,802,742	3,802,742	1,816,534	1,986,208
Wariyapola-No 29/4,Adhikari Mawatha,Wariyapola.	10.0	6,208	November 12, 2013	-	35,609,963	35,609,963	8,424,316	27,185,647
<b>Southern Province</b>								
Kekanadura - Weherahena Rd, Kekanadura	12.0	1,704	May 10, 2004	1,418,000	1,194,535	2,612,535	955,355	1,657,180
Akmeemana - Ganegoda, Akmeemana	6.5	1,614	October 2, 1993	-	600,000	600,000	599,999	1
Galle Branch - No 301, Matara rd, Magalle, Galle	30.0	1,224	October 9, 1999	-	4,927,109	4,927,109	3,544,036	1,383,073
Katuwana - Uda Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001	1,320,000	7,406,958	8,726,958	5,923,875	2,803,083
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005	1,620,667	1,675,534	3,296,201	1,591,375	1,704,826
Uragasmanhandiya - Kosgoda Road,Uragasmanhandiya	20.0	1,940	April 10, 2012	-	13,354,618	13,354,618	5,826,638	7,527,980
Ambalantota - 139,Hambantota Road,Ambalantota	25.0	2,568	August 30, 2004	2,000,000	3,070,100	5,070,100	2,455,379	2,614,721
Agunakolapelessa,Ranna Road,Agunakolapelessa	12.0	2,371	August 27, 2001	-	3,470,348	3,470,348	2,352,749	1,117,599
D/O Galle - No 301, Matara rd, Magalle, Galle	30.0	2,000	October 8, 1999	1,750,000	4,884,716	6,634,716	3,629,372	3,005,344
No.01,Galwala Road,Hambantota	237.0	16,315		15,000,000	18,034,049	33,034,049	15,766,369	17,267,680
<b>Uva Province</b>								
Girandurukotte - Development Centre,Girandurukotte	10.1	1,661	November 30, 2011	-	3,227,674.2	3,227,674	1,524,151	1,703,523
Monaragal D/O-Monaragala Road,Buttala.	34.0	1,706	October 22, 1999	-	3,162,263	3,162,263	1,467,356	1,694,907
Bandarawela Lease hold Premises	7.7		February 18, 2013	1,150,000	-	1,150,000	1,150,000	-
<b>Sabaragamuwa Province</b>								
Balangoda - No17,Rest House Approach Road,Balangoda	20.0	-	February 18, 2013	6,679,574		6,679,574		6,679,574
<b>Eastern Province</b>								
Swiss Village, Batticaloa,				173,370		173,370		173,370
Clock tower junction, front of busstand, Ampara				468,550		468,550		468,550
<b>Total</b>				<b>126,756,593</b>	<b>508,334,304</b>	<b>635,090,898</b>	<b>184,965,593</b>	<b>450,125,304</b>



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 25. INTANGIBLE ASSETS

As at 31st December	2020 Rs.	2019 Rs.
<b>Computer Software</b>		
Opening balance as at 1st January	276,312,857	228,670,607
Merged of LDB Balances at at 01/04/2019	-	33,826,261
Additions	1,532,923	13,815,989
<b>Closing balance as at 31st December</b>	<b>277,845,780</b>	<b>276,312,857</b>
<b>(Less): Amortization</b>		
Opening balance as at 1st January	230,956,513	167,882,888
Merged of LDB Balances at at 01/04/2019	-	31,621,185
Charge for the year	25,616,567	31,452,440
<b>Closing balance as at 31st December</b>	<b>256,573,080</b>	<b>230,956,513</b>
<b>Net book value</b>	<b>21,272,699</b>	<b>45,356,343</b>
<b>25.1 Right of use assets</b>		
	<b>2020</b>	<b>2019</b>
	<b>Building Rs.</b>	<b>Motor Vehicles Rs.</b>
Cost		<b>Total Rs.</b>
Balance as at 1 January 2020	1,058,318,802	51,945,918
Opening balance modifications - Prepayments	(1,377,599)	-
Opening balance modifications - Buildings	(59,803,752)	-
Additions and Improvements	88,980,848	-
<b>Cost as at 31 December 2020</b>	<b>1,086,118,299</b>	<b>51,945,918</b>
<b>Accumulated Amortization</b>		
Balance as at 1 January 2020	237,745,060	17,336,505
Charge for the Period	266,667,589	17,336,505
Accumulated amortization as at 31 December 2020	<b>504,412,649</b>	<b>34,673,010</b>
<b>Net book Value as at 31 December 2020</b>	<b>581,705,650</b>	<b>17,272,907</b>
	<b>2019</b>	<b>2018</b>
	<b>Building Rs.</b>	<b>Motor Vehicles Rs.</b>
Cost		<b>Total Rs.</b>
Balance as at 1 January 2019	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	946,598,134	51,945,918
Reclassification from Prepayments	40,529,572	-
Additions and Improvements	71,191,096	-
<b>Cost as at 31 December 2019</b>	<b>1,058,318,802</b>	<b>51,945,918</b>
<b>Accumulated Amortization</b>		
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
Accumulated amortization as at 31 December 2019	<b>237,745,060</b>	<b>17,336,505</b>
<b>Net book Value as at 31 December 2019</b>	<b>820,573,742</b>	<b>34,609,413</b>
<b>25.1.1 Lease Liability</b>		
	<b>2020</b>	<b>2019</b>
	<b>Building Rs.</b>	<b>Motor Vehicles Rs.</b>
Balance as at 1 January 2020	855,733,295	36,380,307
Opening balance modifications - Buildings	(60,277,028)	-
Additions	73,577,723	-
Accretion of Interest	121,894,729	3,361,525
Payments	(297,953,294)	(20,276,640)
<b>Balance as at 31 December 2020</b>	<b>692,975,425</b>	<b>19,465,192</b>
	<b>2019</b>	<b>2018</b>
	<b>Building Rs.</b>	<b>Motor Vehicles Rs.</b>
Balance as at 1 January 2019	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	946,598,134	51,945,918
Additions	71,191,096	-
Accretion of Interest	97,462,698	4,711,029
Payments	259,518,633	20,276,640
<b>Balance as at 31 December 2019</b>	<b>855,733,295</b>	<b>36,380,307</b>
<b>25.1.2. Maturity Analysis of Lease Liability</b>		
	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
As at 31 December	712,440,617	892,113,602
Less than 1 year	85,295,170	305,287,731
More than 1 year	627,145,448	586,825,871
<b>25.1.3. The present value of operating lease commitments as at 1 January 2020 has been calculated using weighted average incremental borrowing rate of 7.26%.</b>		

Pradeshiya Sanwardana Bank

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**26. DEFERRED TAX ASSETS/LIABILITIES**

**As at 31st December**

	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Deferred tax asset	(1,130,158,716)	(935,849,723)
Deferred tax liability	226,437,747	239,533,239
Net deferred tax (asset)/liability	<u>(903,720,969)</u>	<u>(696,316,484)</u>

**26.1 Amounts recognized in the Income Statement**

Recognized in profit or loss	(126,865,320)	(167,082,742)
Recognized in other comprehensive income	<u>(80,539,165)</u>	<u>(31,293,253)</u>

**26.2 Movement in deferred tax balances**

<b>2020</b>	<b>Net Balance as at 01st January 2020</b>	<b>Recognized in profit or loss</b>	<b>Recognized in OCI</b>	<b>Net Balance at 31st December 2020</b>	<b>Deferred Tax Asset</b>	<b>Deferred Tax Liability</b>
Property, Plant and Equipment	124,682,374	(3,194,927)	-	121,487,447	-	121,487,447
Leases	114,850,865	(9,900,565)	-	104,950,300	-	104,950,300
Allowance for loan losses	(287,054,745)	(153,366,762)		(440,421,507)	(440,421,507)	-
Employee Benefits	(626,112,236)	38,761,491	(80,539,165)	(667,889,910)	(667,889,910)	-
Operating Lease	(22,682,742)	835,443	-	(21,847,299)	(21,847,299)	-
	<u>(696,316,484)</u>	<u>(126,865,320)</u>	<u>(80,539,165)</u>	<u>(903,720,969)</u>	<u>(1,130,158,716)</u>	<u>226,437,747</u>

<b>2019</b>	<b>Net Balance as at 01st January 2019</b>	<b>Balances merged from LDB as at 01/04/2019</b>	<b>Recognized in profit or loss</b>	<b>Recognized in OCI</b>	<b>Net Balance at 31st December 2019</b>	<b>Deferred Tax Asset</b>	<b>Deferred Tax Liability</b>
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)	-
	<u>(467,312,859)</u>	<u>(30,627,630)</u>	<u>(167,082,742)</u>	<u>(31,293,253)</u>	<u>(696,316,484)</u>	<u>(935,849,723)</u>	<u>239,533,239</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**27. OTHER ASSETS**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
<b>Cost</b>		
<b>Financial Assets</b>		
Receivables	1,494,642,813	1,508,663,020
Deposits and Advances	40,153,251	50,129,607
Sundry debtors	50,616,802	33,327,220
Others	203,221,963	41,721,781
	<u>1,788,634,829</u>	<u>1,633,841,628</u>
<b>Non Financial Assets</b>		
Prepayment	90,467,723	88,100,810
Others	969,862,322	1,094,805,800
Tax Receivables	3,156,681	3,433,601
Less : Impairment Provision	(91,534,986)	(87,758,000)
	<u>971,951,741</u>	<u>1,098,582,211</u>
<b>Total</b>	<u>2,760,586,570</u>	<u>2,732,423,839</u>

**28. DUE TO BANKS**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Borrowings	10,918,815,620	11,549,599,587
Leasing (28.1)	90,547	96,000
Refinance	10,877,773,183	10,500,313,417
<b>Total</b>	<u>21,796,679,350</u>	<u>22,050,009,005</u>

**28.1 Maturity of the leasing**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Not later than 1 year	90,547	96,000
	<u>90,547</u>	<u>96,000</u>
Less - Interest in suspense	-	-
<b>Total</b>	<u>90,547</u>	<u>96,000</u>

**29. DUE TO OTHER CUSTOMERS**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
At amortized cost (29.1)	172,882,632,278	149,599,829,047
<b>Total</b>	<u>172,882,632,278</u>	<u>149,599,829,047</u>

**29.1 Analysis**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
By product		
Savings deposits	40,988,362,809	31,692,569,975
Long term savings	24,680,930,633	24,258,209,629
Fixed deposits	107,213,338,836	93,649,049,443
Total	<u>172,882,632,278</u>	<u>149,599,829,047</u>
By currency		
Sri Lankan rupee	172,882,632,278	149,599,829,047
<b>Total</b>	<u>172,882,632,278</u>	<u>149,599,829,047</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**30. DEBT ISSUED AND OTHER BORROWED FUNDS**

As at 31st December	2020 Rs.	2019 Rs.
Redeemable debentures (30.1)	2,000,000,000	4,707,852,534
<b>Total</b>	<b>2,000,000,000</b>	<b>4,707,852,534</b>

**30.1 Redeemable debentures**

As at 31st December	2020 Rs.	2019 Rs.
Opening balance as at 1st January	4,707,852,534	4,707,852,534
Debt Redemption	(2,500,000,000)	-
Interest Payable	-	535,784,685
Interest Paid	(207,852,534)	(535,784,685)
<b>Closing balance as at 31st December</b>	<b>2,000,000,000</b>	<b>4,707,852,534</b>

**Details of debenture issued**

	Note	No. of Debentures	Face Value Rs.	Amortised Cost 2020 Rs.	Amortised Cost 2019 Rs.
Debentures issued in 2015	30.1.1	-	-	-	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
<b>Total debentures issued by the Bank</b>		<b>20,000,000</b>	<b>2,000,000,000</b>	<b>2,000,000,000</b>	<b>4,707,852,534</b>

**30.1.1 Debenture issued in 2015**

Unsecured subordinated redeemable 5-year debentures of Rs.100/- each issued in 2017. The debentures are quoted in the Colombo Stock Exchange.

Type	No of debentures	Face value (Rs.)	Amortized cost 2020 (Rs.)	Amortized cost 2019 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
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
B	3,610,200	361,020,000	-	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	2015/01/30	2020/01/30	Fixed - 8.71% per annum payable quarterly
	<b>25,000,000</b>	<b>2,500,000,000</b>	<b>-</b>	<b>2,707,852,534</b>			

**30.1.2 Debenture issued in 2017**

Unsecured subordinated redeemable 5-year debentures of Rs.100/- each issued in 2017. The debentures are not quoted in the Colombo Stock Exchange.

Type	No of debentures	Face value (Rs.)	Amortized cost 2020 (Rs.)	Amortized cost 2019 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
A	3,000,000	300,000,000	300,000,000	300,000,000	2017/03/31	2022/03/31	Fixed - 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	1,700,000,000	2017/03/31	2022/03/31	Fixed - 15.5% per annum payable bi-annually
	<b>20,000,000</b>	<b>2,000,000,000</b>	<b>2,000,000,000</b>	<b>2,000,000,000</b>			

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**31. CURRENT TAX LIABILITIES**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Balance as at 1st January	448,881,448	473,833,076
Current tax based on profit for the year (Note 14)	723,625,797	890,648,620
(Over) Under provision in respect of previous years (Note 14)	12,651,872	-
Payment of tax	(806,955,563)	(915,600,248)
<b>Total</b>	<b>378,203,555</b>	<b>448,881,448</b>

**32. OTHER LIABILITIES**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
<b>Financial Liabilities</b>		
Sundry creditors	218,029,380	1,661,234,520
Other payables	3,182,069,805	2,369,761,073
Inter bank transaction in transit	62,878,750	31,161,459
Operating Lease Liability (32.1)	712,440,617	892,113,602
	<b>4,175,418,552</b>	<b>4,954,270,654</b>
<b>Non Financial Liabilities</b>		
Other payables	1,976,982,928	1,014,443,518
Impairment provision for expected credit losses - credit related commitment and contingencies	2,042,296	2,206,273
	<b>1,979,025,224</b>	<b>1,016,649,791</b>
<b>Total</b>	<b>6,154,443,776</b>	<b>5,970,920,446</b>

**32.1 Operating Lease Liability**

	<b>2020</b>	<b>2019</b>
As at 1st January	892,113,602	998,544,052
Opening balace modifications	(60,277,028)	-
Additions	73,577,723	71,191,096
Accretion of Interest	125,256,254	102,173,728
Payments	(318,229,934)	(279,795,273)
<b>As at 31st December</b>	<b>712,440,617</b>	<b>892,113,602</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**33. RETIREMENT BENEFIT OBLIGATION**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Retirement Benefit Obligation (Note 33.1)	2,782,874,624	2,236,115,128
	<u>2,782,874,624</u>	<u>2,236,115,128</u>

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

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Opening balance as at 1st January	2,236,115,128	1,926,924,377
Provision made during the year (Note 33.2)	378,715,968	324,011,184
Merged of LDB Balances at at 01/04/2019	-	25,574,060
Payable for resigned employees	(25,496,268)	(5,869,221)
Net Actuarial (Gain)/Loss on obligation (Note 33.3)	335,579,854	111,761,620
	<u>2,924,914,682</u>	<u>2,382,402,019</u>
Benefits paid by the Bank	(142,040,058)	(146,286,891)
	<u>2,782,874,624</u>	<u>2,236,115,128</u>

**33.2 Amount Recognised in Income Statement**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Current Service cost	141,687,765	102,414,880
Interest Cost	237,028,204	221,596,303
<b>Total amount recognised in the Income Statement</b>	<u>378,715,968</u>	<u>324,011,184</u>

**33.3 Amount Recognised in Statement of Other Comprehensive Income**

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Net Actuarial (Gain)/Loss on obligation	335,579,854	111,761,620
<b>Total amount recognised in Other Comprehensive Income</b>	<u>335,579,854</u>	<u>111,761,620</u>

**33.4** An actuarial valuation of the gratuity fund was carried out as at 31st December 2020 by Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method (PUC)", recommended by Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

<b>Actuarial assumptions</b>	<b>2020</b>	<b>2019</b>
Discount rate as at 31st December	7.80%	10.60%
	8%	8%
	(Every three years with the next increment due on 01st January 2021)	(Every three years with the next increment due on 01st January 2021)
Future salary increment rate	A1967/70 Mortality Table	A1967/70 Mortality Table
Mortality	60 Years	60 Years
Retirement age		

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**33. RETIREMENT BENEFIT OBLIGATION (Contd...)****34 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	2020		2019	
		Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year Rs.	Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability Rs.	Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year Rs.	Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability Rs.
1%	-	212,277,839	(212,277,839)	156,043,798	(156,043,798)
(-1%)	-	(245,594,943)	245,594,943	(178,236,742)	178,236,742
-	1%	(246,581,281)	246,581,281	(191,192,223)	191,192,223
-	(-1%)	217,019,884	(217,019,884)	169,711,763	(169,711,763)

**34. STATED CAPITAL**

As at 31st December

**Ordinary shares**

Opening balance as at 1st January

Issue of shares

Closing balance as at 31st December

**2020**  
**Rs.****2019**  
**Rs.**

8,047,229,930

8,047,229,930

-

-

8,047,229,930

8,047,229,930

**35. STATUTORY RESERVE FUND**

As at 31st December

Opening balance as at 1st January

Transfer during the period

Closing balance as at 31st December

**2020**  
**Rs.****2019**  
**Rs.**

742,261,195

717,331,468

20,201,803

24,929,727

762,462,998

742,261,195

**36. RETAINED EARNINGS**

As at 31st December	2020 Rs.	2019 Rs.
Opening balance as at 1st January	2,421,534,400	2,315,905,812
Profit for the year	404,036,052	498,594,531
Other comprehensive Income	(255,040,689)	(80,468,366)
Divident Paid	-	(193,546,847)
Opening Differed Tax effect	-	30,627,630
Transfers to other reserves	(121,210,816)	(149,578,359)
<b>Closing balance as at 31st December</b>	<b>2,449,318,948</b>	<b>2,421,534,400</b>

**37. OTHER RESERVES****a. Current year (2020)**

	Opening balance as at 1st January	Movement/ transfers	Closing balance as at 31st December
	Rs.	Rs.	Rs.
General reserve Fund	3,157,644,530	80,807,210	3,238,451,740
Special Reserve Fund	596,651,523	20,201,803	616,853,326
<b>Total</b>	<b>3,754,296,053</b>	<b>101,009,013</b>	<b>3,855,305,065</b>

**b. Previous year (2019)**

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

**General reserve Fund**

The general reserve is the result of the Bank transferring a certain amount of profit from retained earnings accounts to general reserve account. The purpose of setting up the general reserve is to meet potential future unknown liabilities.

**Special Reserve Fund**

The Special Reserve Fund is the result of the Bank transferring a certain amount of profit from retained earnings accounts to Special Reserve account. The purpose of setting up the to meet potential future unknown liabilities.



**38. CONTINGENT LIABILITIES AND COMMITMENTS**

In the normal course of business, the Bank undertakes commitments and incurs contingent liabilities with legal recourse to its customers to accommodate the financial and investment needs of clients, to conduct trading activities, and to manage its own exposure to risk. These financial instruments generate interest or fees and carry elements of credit risk in excess of those amounts recognized as assets and liabilities in the Statement of Financial Position. However no material losses are anticipated as a result of these transactions.

These contingencies and commitments are quantified below:

<b>As at 31st December</b>	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Guarantees and performance bonds	138,447,168	139,742,498
Other contingent items	65,929,841	93,153,311
Less : Impairment for expected credit losses-Guarantees	(2,042,296)	(2,189,819)
<b>Total</b>	<b>202,334,713</b>	<b>230,705,990</b>

**38.1 Analysis of Commitment and Contingency Exposure to Credit Risk****As at 31 December 2020**

	<b>Stage 1</b>	<b>Total</b>
Guarantees and performance bonds	138,447,168	138,447,168
Other contingent items	65,929,841	65,929,841
Impairment for expected credit losses (38.1.1)	(2,042,296)	(2,042,296)
	<u>202,334,713</u>	<u>202,334,713</u>

**As at 31 December 2019**

	<b>Stage 1</b>	<b>Total</b>
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)
	<u>230,705,990</u>	<u>230,705,990</u>

**38.1.1 Analysis of Commitment and Contingency Exposure to Credit Risk**

	<b>2020</b>	<b>2019</b>
Balance as at 1st January	2,189,819	1,715,667
Net Charge for the year	(147,522)	474,152
	<u>2,042,296</u>	<u>2,189,819</u>

**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 31/12/2020, the Bank has 48 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)**

	<b>2020 Rs.</b>	<b>2019 Rs.</b>
Short term employment benefits	104,012,596	99,340,946
Post employment benefits	15,873,682	-
<b>Total</b>	<b>119,886,279</b>	<b>99,340,946</b>

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

	<b>2020 Rs.</b>	<b>2019 Rs.</b>
<b>Items in the Statement of Financial Position</b>		
<b>Assets</b>		
Loans and receivables	69,074,995	42,066,607
<b>Total</b>	<b>69,074,995</b>	<b>42,066,607</b>
<b>Liabilities</b>		
Deposits	74,673,859	74,224,998
<b>Total</b>	<b>74,673,859</b>	<b>74,224,998</b>
<b>Items in the Statement of Profit or Loss</b>		
Interest income	2,950,858	3,242,450
Interest expenses	4,961,370	4,133,197
<b>Total</b>	<b>7,912,228</b>	<b>7,375,648</b>

**39. RELATED PARTY DISCLOSURES****39.2.2.1 Terms and conditions of the accommodation granted to KMPs and their CFMs**

Type of the Loan	Other Terms and Conditions	Balance as at 31.12.2020	Security Details 31.12.2020 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.	18,575,447	Land	195,800,000
Staff Vehicle Loans		37,272,753	Motor vehicle	84,321,912
Cash Backed Loans		664,942	Fixed Deposit	2,091,503
Consumptions and Other Loans		12,561,853		
		69,074,995		
Type of the Loan	Other Terms and Conditions	Balance as at 31.12.2019	Security Details 31.12.2019 Type	Value
Staff Housing Loans	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.	13,609,871	Land	107,714,801
Staff Vehicle Loans		16,574,093	Motor vehicle	38,500,000
Cash Backed Loans		4,437,731	Fixed Deposit	5,547,164
Consumptions and Other Loans		7,444,912		
		42,066,607		

Total exposure to KMPs and their CFMs represents 0.3% of bank's regulatory capital.

**39. RELATED PARTY DISCLOSURES (Contd...)****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:

Items in the Statement of Financial Position	Outstanding Balance	
	2020 Rs.	2019 Rs.
<b>Assets</b>		
Loans and receivables	214,605,086	235,326,181
<b>Total</b>	<b>214,605,086</b>	<b>235,326,181</b>
<b>Liabilities</b>		
Deposits	16,683,794,371	20,156,007,658
<b>Total</b>	<b>16,683,794,371</b>	<b>20,156,007,658</b>
<b>Items in the Statement of Profit or Loss</b>		
Interest income	15,756,643	14,256,228
Interest expenses	1,927,228,758	2,568,256,240
<b>Total</b>	<b>1,942,985,401</b>	<b>2,582,512,468</b>

**39.3.1 Further transactions as detail below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:**

- Investment in Treasury Bills and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - (EPF ,ETF)

**39.4 Pricing Policy with Related Parties**

The Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accomodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**40. ASSETS PLEDGED AS SECURITY**

The total financial assets recognized in the statement of financial position that had been pledged as collateral for liabilities at 31 December 2020 and 2019 is shown in the preceding tables:

**2020**

Type of Facility		Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31-12-2020 Rs. Mn
1	Over Draft - BOC	1,326	FD 80912939	631.341	-
			FD 74353124	257.523	
			FD 82300125	242.000	
			FD 74817306	316.229	
			FD 74588793	294.968	
			FD 74619066	292.304	
2	Over Draft - PB	200	FD- 014-60-01-00014391-8	458.271	-

**2019**

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

**41. NON- CASH ITEMS INCLUDED IN PROFIT BEFORE TAX**

	Notes	2020 Rs.	2019 Rs.
Depreciation of property, plant and equipment /			
Amortization of ROU	24	591,176,191	585,870,239
Amortization of intangible assets	25.	25,616,567	31,452,440
Staff loan adjustment		326,777,343	712,227,331
Impairment chargers	10.	2,010,929,062	2,408,748,853
Capital loss on pawning advance	12	-	12,501
Changes in equity Instruments at fair value through profit or loss		(23,102,434)	(8,596,304)
Changes in equity Instruments at fair value throu	8	(22,160)	7,400
Charge for retirement benefit obligation	11.	389,587,045	323,313,062
Movements of other funds		26,719,629	12,523,124
(Profit) / loss on sale of fixed assets	9.	349,129	(3,811,675)
Recoveries of NPL loans ( Written Off)		(184,320)	(325,939)
<b>Total</b>		<b>3,347,846,053</b>	<b>4,061,421,032</b>

**42. CHANGE IN OPERATING ASSETS**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Net change in loans and receivables from other customers	(22,405,498,881)	(6,947,870,967)
Change in other assets	(28,162,730)	(314,411,853)
Net change in Financial investments at amortised cost-Debt & other instruments	(783,385,821)	(11,970,000)
<b>Total</b>	<u>(23,217,047,432)</u>	<u>(7,274,252,820)</u>

**43. CHANGE IN OPERATING LIABILITIES**

	<b>2020</b>	<b>2019</b>
	<b>Rs.</b>	<b>Rs.</b>
Net change in due to banks	377,454,313	7,665,484,695
Net change in due to other customers	23,257,229,441	8,042,488,385
Net change in other liabilities	183,523,330	3,510,634,016
<b>Total</b>	<u>23,818,207,084</u>	<u>19,218,607,096</u>

**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 categorized. The amounts are based on the values recognized in the statement of financial position.

<b>As at 31st December</b>	<b>2020</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Equity Instruments at fair value through profit or loss	145,160	-	-	145,160
Financial assets-fair value through other comprehensive income	-	-	2,289,919	2,289,919
	<u>145,160</u>	<u>-</u>	<u>2,289,919</u>	<u>2,435,079</u>

<b>As at 31st December</b>	<b>2019</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
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
	<u>123,000</u>	<u>-</u>	<u>2,289,919</u>	<u>2,412,919</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**44. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)****44.3 Financial Instruments not measured at fair value**

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

	Fair value hierarchy	2020		2019	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>		<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Cash and cash equivalent	Level 2	3,758,858,141	3,758,858,141	2,750,187,219	2,750,187,219
Placements with Banks	Level 2	8,436,353,244	8,436,353,244	9,798,242,492	9,798,242,492
Financial investments at amortised cost-Debt & other instruments	Level 2	46,962,354,137	46,962,354,137	45,664,745,400	45,664,745,400
<b>Loans and receivables from other customers - without impairment</b>					
Pawning	Level 2	15,433,723,728	15,433,723,728	13,746,633,225	13,746,633,225
Staff loans	Level 2	4,122,588,706	4,122,588,706	3,560,904,130	3,560,904,130
Short-term	Level 2	10,307,093,390	10,307,093,390	10,200,684,495	10,200,684,495
Long-term	Level 2	136,274,370,012	136,274,370,012	117,185,328,990	117,185,328,990
Other assets		1,788,634,829	1,788,634,829	1,633,841,628	1,633,841,628
		227,083,976,187	227,083,976,187	204,540,567,579	204,540,567,579
<b>Financial liabilities</b>					
Due to banks		21,796,679,350	21,796,679,350	22,050,009,005	22,050,009,005
Due to other customers	Level 2	172,882,632,278	172,882,632,278	149,599,829,047	149,599,829,047
Debt issued and other borrowed funds	Level 2	2,000,000,000	2,000,000,000	4,707,852,534	4,707,852,534
Other liabilities		4,175,418,552	4,175,418,552	4,954,270,654	4,954,270,654
		200,854,730,180	200,854,730,180	181,311,961,240	181,311,961,240

**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 34% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year. Therefore fair value of loans and advances to customers approximates to their carrying value as at the reporting date.

**Due to Customers**

More than 66% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 45. CURRENT VS NON CURRENT ANALYSIS

## 2020

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalent	3,758,858,141	-	3,758,858,141
Placements with banks	8,436,353,244	-	8,436,353,244
Equity Instruments at fair value through profit or loss	145,160	-	145,160
Financial assets at amortised cost-Loans and receivables from other customers	55,041,777,148	101,652,275,325	156,694,052,473
Financial assets at amortised cost-Debt & other instruments	46,962,354,137	-	46,962,354,137
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property and equipment	-	970,538,655	970,538,655
Intangible assets	-	21,272,699	21,272,699
Right of use assets	-	598,978,557	598,978,557
Deferred tax assets	-	903,720,969	903,720,969
Other assets	1,768,425,361	992,161,209	2,760,586,569
<b>Total assets</b>	<b>115,967,913,191</b>	<b>105,141,237,333</b>	<b>221,109,150,524</b>
<b>Liabilities</b>			
Due to banks	3,416,991,461	18,379,687,889	21,796,679,350
Due to other customers	114,598,563,913	58,284,068,365	172,882,632,278
Debt issued and other borrowed funds	-	2,000,000,000	2,000,000,000
Current tax liabilities	378,203,555	-	378,203,555
Other liabilities	2,630,439,194	3,524,004,582	6,154,443,776
Retirement benefit obligation	164,537,301	2,618,337,323	2,782,874,624
<b>Total liabilities</b>	<b>121,188,735,424</b>	<b>84,806,098,159</b>	<b>205,994,833,583</b>
<b>Maturity Gap</b>	<b>(5,220,822,233)</b>	<b>20,335,139,174</b>	<b>15,114,316,941</b>
<b>Cumulative Gap</b>	<b>(5,220,822,233)</b>	<b>15,114,316,941</b>	<b>-</b>

## 2019

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalent	2,750,187,219	-	2,750,187,219
Placements with banks	9,798,242,492	-	9,798,242,492
Equity Instruments at fair value through profit or loss	123,000	-	123,000
Financial assets at amortised cost-Loans and receivables from other customers	50,151,465,844	86,054,175,598	136,205,641,441
Financial assets at amortised cost-Debt & other instruments	42,635,525,488	3,029,219,912	45,664,745,400
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property and equipment	-	1,228,419,894	1,228,419,894
Intangible assets	-	45,356,343	45,356,343
Right of use assets	-	855,183,154	855,183,154
Deferred tax assets	-	696,316,484	696,316,484
Other assets	585,688,247	2,146,735,593	2,732,423,839
<b>Total assets</b>	<b>105,921,232,289</b>	<b>94,057,696,897</b>	<b>199,978,929,186</b>
<b>Liabilities</b>			
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
<b>Total liabilities</b>	<b>107,815,937,269</b>	<b>77,197,670,340</b>	<b>185,013,607,608</b>
<b>Maturity Gap</b>	<b>(1,894,704,980)</b>	<b>16,860,026,557</b>	<b>14,965,321,577</b>
<b>Cumulative Gap</b>	<b>(1,894,704,980)</b>	<b>14,965,321,577</b>	<b>-</b>



**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;

Ø	Credit risk
Ø	Liquidity risk
Ø	Market risk
Ø	Operational risk

**46.1.1 Risk Management Framework**

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has delegated its authority to Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Bank's risk management policies. The committee comprises of non-executive directors and members of senior management of the Bank. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

**46.1.2 Asset and Liability Committee (ALCO)**

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

**46.1.3 Risk Measurement & Reporting**

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

**46.1.4 Risk Mitigation**

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

**46.2 Credit Risk**

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

**46. RISK MANAGEMENT (Contd...)****46.2.1 Impairment assessment (Policy applicable from 1 January 2018)****46.2.1.1 The Bank's internal rating process****Treasury, trading and interbank relationships**

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

**Sector classification of loans**

The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka.

Of the total sector classification, this report categorised them in top major sectors, in accordance to the size of the portfolios.

The highest sector under this classification as per the banks closing books, 2020 is the Housing Loan followed by Commercial, Agriculture, Refinance/Interest subsidy loans, Industrial, Pawning, Loans against deposits, Consumption and Others, Staff loans, Leasing, SME, Liya Isura Loans.

**Sector wise portfolios**

1. Housing Loan: Housing loan carries the highest sectorial loan concentration with 23.6% as of December 31, 2020. 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. Term Loan Agriculture : Agriculture, agro equipments, cultivation, fisheries, livestock and pledge loans falls under this category.

4. Refinance / Interest Subsidy : Refinance and Interest subsidy loans has 2nd highest credit concentration. These loan schemes are operated

5. Term Loan - Industrial : Loans against transport, tourism, and loans to service sectors fall under this category.

6. Term Loan - Others : All those sectors (comprising of consumption, pension loans and other specialised loans schemes)

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

**Corporate loans (Services, Manufacturing and Industry loans)**

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

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.

- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

**Consumer lending and retail loans**

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

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

- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

**46. RISK MANAGEMENT (Contd...)**The Bank's Delinquency status

Delinquency status	Description
<b>Stage 1</b>	
Regular	<b>Performing</b>
1 - 30 days	<b>Performing</b>
<b>Stage 2</b>	
31-60 days	<b>Under Performing</b>
61-90 days	<b>Under Performing</b>
<b>Stage 3</b>	
Above 90 days	<b>Non- performing</b>

**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 required to be assessed and reviewed at least every three months and approved by the head of credit department of the bank. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

**46.2.1.4 Significant increase in credit risk**

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. Bank determines significantly increase credit risk when customers exceed 30days past due.

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

**46.2.1.5 Grouping financial assets measured on a collective basis**

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 46. RISK MANAGEMENT (Contd...)

## 46.2.1.6 Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

An overview of the approach to estimating ECLs is set out in Note 2 Summary of significant accounting policies and in Note 2.1 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2020.

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

## 31-Dec-20

Key drivers	ECL Scenario	Assigned Probabilities	2021	2022	2023	2024	2025	Subsequent Years
		%	%	%	%	%	%	%
<b>GDP growth %</b>								
	Base Case	30	1.50	1.50	1.50	1.50	1.50	1.50
	Best Case	25	1.53	1.56	1.59	1.62	1.63	1.64
	Worse Case	45	1.45	1.44	1.43	1.42	1.40	1.40
<b>Inflation Rates %</b>								
	Base Case	30	3.00	3.00	3.00	3.00	3.00	3
	Best Case	25	2.88	2.86	2.83	2.80	2.74	2.74
	Worse Case	45	3.08	3.15	3.22	3.30	3.33	3.33
<b>Interest Rate %</b>								
	Base Case	30	4.50	4.50	4.50	4.50	4.50	4.50
	Best Case	25	4.20	4.12	4.05	3.98	3.82	3.82
	Worse Case	45	4.72	4.92	5.12	5.33	5.43	5.43
<b>Exchange rates (USD \$ to LKR)</b>								
	Base Case	30	208.25	222.83	238.43	255.12	272.98	292.09
	Best Case	25	195.14	195.65	196.17	196.68	197.20	197.72
	Worse Case	45	232.83	278.53	325.00	325.00	325.00	325.00
<b>Unemployment rates %</b>								
	Base Case	30	5.40	5.40	5.40	5.40	5.40	5.40
	Best Case	25	5.34	5.32	5.31	5.29	5.25	5.25
	Worse Case	45	5.44	5.48	5.52	5.56	5.57	5.57

## 46.2.2 Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows;

	Carrying Amount	
	2020`	2019
Placements with banks	8,436,353,244	9,798,242,492
Financial assets held for trading/Equity Instruments at fair value through profit or loss	145,160	123,000
Financial assets at amortised cost-Loans and receivables from other customers	156,694,052,473	136,205,641,441
Financial assets at amortised cost-Debt & other instruments	46,962,354,137	45,664,745,400
Financial assets-fair value through other comprehensive income	2,289,919	2,289,919
Other assets	1,788,634,829	1,633,841,628
	213,883,829,762	196,055,071,099

## Commitments and Contingencies

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

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

Commitments and Contingent Liabilities	2020	2019
	Rs.	Rs.
<b>Contingent Liabilities</b>		
Bank Guarantee	138,447,168	139,742,498
Bills Send for Collection	65,929,841	93,153,311
Less : Impairment for expected credit losses-Guarantees	(2,042,296)	(2,189,819)
<b>Total Contingent Liabilities and Commitments</b>	<b>202,334,713</b>	<b>230,705,990</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 46. RISK MANAGEMENT (Contd...)

## 46.2.3 Assessment of Expected Credit Losses

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

As at 31 December 2020	Note	Stage 1	Stage 2	Stage 3	Total
Placements with Banks	18.1	(0)	-	-	(0)
Financial assets at amortised cost-Loans and receivables from other customers	20.4	1,542,211,585	1,263,209,626	6,873,254,812	9,678,676,023
Financial investments at amortised cost-Debt & other instruments					-
Debentures- Quoted	21.1.1	18,501	-	-	18,501
Investment in Fixed Deposits	21.2.1	2,174,811	-	-	2,174,811
Credit related commitments and contingencies	38.1		2,042,296	-	2,042,296
<b>Total impairment for expected credit losses</b>		<b>1,544,404,897</b>	<b>1,265,251,922</b>	<b>6,873,254,812</b>	<b>9,682,911,631</b>

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

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

	2020	2019
Balance as at 1st January	7,667,314,167	3,498,117,663
Net charge to profit or loss	2,012,924,828	2,401,637,175
Other movements / Write off	(1,562,972)	(33,815,719)
Merged of LDB Balances at at 01/04/2019	-	1,801,375,047
Balance as at 31st December	<u>9,678,676,023</u>	<u>7,667,314,167</u>

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

	2020 Rs.	2019 Rs.
Agriculture	47,095,335,921	37,815,449,698
Industrial	29,266,399,727	24,421,355,279
Trade & Business	29,957,899,817	23,457,585,167
Transport Service	131,099,441	163,675,482
Housing	22,297,649,276	23,405,658,248
Consumption	24,241,516,926	23,113,413,599
Loans Against Deposit	6,245,486,120	6,310,336,711
Leasing	1,101,637,804	105,452,184
Staff	4,256,752,580	3,555,565,454
Interest Receivable on Loans & Advances	2,505,272,109	2,345,059,019
<b>Total</b>	<b>167,099,049,722</b>	<b>144,693,550,841</b>

**46. RISK MANAGEMENT (Contd...)****46.2.6 Collateral held and Other Credit Enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- Ø For commercial lending, charges over real estate properties, inventory and trade receivables
- Ø 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'.

<b>2020</b>	<b>Maximum Exposure to Credit Risk Rs.</b>	<b>Exposure Net of Collateral Rs.</b>
Placements with Banks	8,436,353,244	8,436,353,244
Equity Instruments at fair value through profit or loss	145,160	145,160
Financial assets at amortised cost-Loans and receivables from other customers	167,099,049,722	143,599,303,850
Financial investments at amortised cost-Debt & other instruments	46,962,354,137	46,962,354,137
Equity Instruments at fair value through profit or loss	2,289,919	2,289,919
Other assets	1,788,634,829	1,788,634,829
<b>2019</b>	<b>Maximum Exposure to Credit Risk Rs.</b>	<b>Exposure Net of Collateral Rs.</b>
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	144,693,550,841
Financial investments at amortised cost-Debt & other instruments	45,664,745,400	45,664,745,400
Equity Instruments at fair value through profit or loss	2,289,919	2,289,919
Other assets	1,633,841,628	1,633,841,628

## NOTES TO THE FINANCIAL STATEMENTS

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## 46. RISK MANAGEMENT (Contd...)

## 46.2.6 Collateral held and Other Credit Enhancements (Continued)

## 46.2.6.1 Type of Credit Exposure

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

In Rupees	Percentage of exposure that is subject to collateral exposure		Principal type of collateral held
	2020 Rs.	2019 Rs.	
<b>Loans and advances to retails customers</b>			
Mortgage lending	23,499,745,872	22,569,785,739	Residential Property
Personal loans	143,599,303,850	122,147,768,591	Personal Guarantee/Commercial Property/Motor Vehicle/Equipment etc.
<b>Investment debt securities</b>			
Debenture - DFCC	500,000,000	-	
Debenture - Commercial Bank	500,000,000	500,000,000	None
	168,099,049,722	145,217,554,330	

## 46.2.6.2 Loan-to-value ratio (LTV)

## Residential Mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the goes amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes adjustment for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

In Rupees	2020	2019
<b>LTV ratio</b>		
Less than 50%	-	-
51-70%	23,499,745,872	22,569,785,739
71-90%	-	-
91-100%	-	-
More than 100%	-	-
Total	23,499,745,872	22,569,785,739

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**46. RISK MANAGEMENT (Contd...)****46.2.7 Concentration of Credit risk**

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

**Concentrations of credit risk**

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk for loans and advances, lending commitments, financial guarantees and investment securities is shown below.

In Rupees	Loans and Advances to Customers		Investment debt securities		Lending commitments and financial guarantees	
	2020	2019	2020	2019	2020	2019
Carrying amount	167,099,049,722	144,693,550,841	46,964,547,449	45,672,531,491	204,377,009	232,895,808
Amount committed/guaranteed						
Concentration by sector						
Corporate:						
Other					204,377,009	232,895,808
Government			3,771,096,580	2,512,295,000		
Banks			43,193,450,869	43,160,236,491		
Retail:						
Personal Guarantee	143,557,683,414	122,078,675,856				
Mortgages	23,499,745,872	22,569,785,739				
Unsecured lending	41,620,436	45,089,246				
	167,099,049,722	144,693,550,841	46,964,547,449	45,672,531,491	204,377,009	232,895,808

**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
- \* 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

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## 46. RISK MANAGEMENT (Contd...)

## 46.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2020. 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 (2020)

Assets	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Cash and cash equivalent	3,758,858,141	-	-	-	-	3,758,858,141
Placements with banks	8,436,353,244	-	-	-	-	8,436,353,244
Equity Instruments at fair value through profit or loss	145,160	-	-	-	-	145,160
Financial assets at amortised cost- Loans and receivables from other customers	16,234,729,360	42,124,670,617	54,314,461,871	26,122,697,426	28,302,490,449	167,099,049,722
Financial assets at amortised cost- Debt & other instruments	35,061,518,730	8,131,932,138	-	-	3,768,903,268	46,962,354,137
Equity Instruments at fair value through other comprehensive income	-	-	-	-	2,289,919	2,289,919
Other assets	562,235,694	1,063,014,928	116,006,963	15,505,836	31,871,408	1,788,634,829
<b>Total assets</b>	<b>64,053,840,329</b>	<b>51,319,617,683</b>	<b>54,430,468,835</b>	<b>26,138,203,261</b>	<b>32,105,555,044</b>	<b>228,047,685,152</b>
<b>Liabilities</b>						
Due to banks	964,765,839	2,898,704,853	8,535,018,824	3,244,443,296	6,153,746,538	21,796,679,350
Due to other customers	43,436,693,605	71,161,722,470	11,599,919,541	15,853,700,845	30,830,595,817	172,882,632,278
Debt issued and other borrowed funds			2,000,000,000			2,000,000,000
Other liabilities	977,558,122	886,015,662	952,551,551	968,020,912	391,272,304	4,175,418,552
<b>Total liabilities</b>	<b>45,379,017,567</b>	<b>74,946,442,985</b>	<b>23,087,489,916</b>	<b>20,066,165,053</b>	<b>37,375,614,658</b>	<b>200,854,730,180</b>
<b>Total net Asset/(Liability)</b>	<b>18,674,822,762</b>	<b>(23,626,825,302)</b>	<b>31,342,978,918</b>	<b>6,072,038,208</b>	<b>(5,270,059,615)</b>	<b>27,192,954,972</b>

Contractual maturities of undiscounted cash flows of financial assets and liabilities (2019)

Assets	Up to 3 Months Rs.	3-12 Months Rs.	1 - 3 Years Rs.	3 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Cash and cash equivalent	2,750,187,219	-	-	-	-	2,750,187,219
Placements with banks	9,798,242,492	-	-	-	-	9,798,242,492
Equity Instruments at fair value through profit or loss	12,300	-	-	-	-	12,300
Financial assets at amortised cost- Loans and receivables from other	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 & Equity Instruments at fair value through o	22,069,935,725	20,565,579,743	516,934,932	-	2,512,295,000	45,664,745,400
Other assets	828,977,211	3,839,264	85,400,557	555,365,369	160,259,226	1,633,841,628
<b>Total assets</b>	<b>49,288,370,241</b>	<b>59,359,046,236</b>	<b>50,103,680,860</b>	<b>20,801,077,056</b>	<b>24,990,806,106</b>	<b>232,463,306,963</b>
<b>Liabilities</b>						
Due to banks	1,210,287,929	2,340,021,873	7,490,058,328	2,995,029,165	8,014,611,709	22,050,009,004
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	4,954,270,654
<b>Total liabilities</b>	<b>46,869,649,618</b>	<b>62,211,353,358</b>	<b>18,814,570,329</b>	<b>16,494,802,033</b>	<b>36,921,585,902</b>	<b>181,311,961,241</b>
<b>Total net Asset/(Liability)</b>	<b>2,418,720,623</b>	<b>(2,852,307,122)</b>	<b>31,289,110,531</b>	<b>4,306,275,023</b>	<b>(11,930,779,796)</b>	<b>51,151,345,723</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

**46. RISK MANAGEMENT (Contd...)****46.3.2 Contractual Maturities of Commitments & Contingencies**

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

**2020**

<b>Contingent Liabilities</b>	<b>On Demand Rs.</b>	<b>Less than 3 Months Rs.</b>	<b>3 to 12 Months Rs.</b>	<b>1 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>	<b>Total Rs.</b>
Bank guarantee (without impairment)	-	16,750,000	116,601,668	5,095,500	-	138,447,168
Other Contingent items- Bills sent for collection	65,929,841	-	-	-	-	65,929,841
<b>Total Contingent Liabilities</b>	<b>65,929,841</b>	<b>16,750,000</b>	<b>116,601,668</b>	<b>5,095,500</b>	<b>-</b>	<b>204,377,009</b>

**2019**

<b>Contingent Liabilities</b>	<b>On Demand Rs.</b>	<b>Less than 3 Months Rs.</b>	<b>3 to 12 Months Rs.</b>	<b>1 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>	<b>Total Rs.</b>
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
<b>Total Contingent Liabilities</b>	<b>93,153,311</b>	<b>16,750,000</b>	<b>117,896,998</b>	<b>5,095,500</b>	<b>-</b>	<b>232,895,808</b>

**46.3.3 Statutory Liquid Assets Ratio**

For the month of December 2020	29.30%
For the month of December 2019	32.38%

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

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks & Due to other customers (Deposits).

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

As at 31st December 2020	90.64%
As at 31st December 2019	91.05%

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

## 46. RISK MANAGEMENT (Contd...)

## 46.4 Market risk

Market risk' is the risk that changes in marker prices - such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to the changes in the obligator's/ issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimizing the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

2020		Market risk measure	
As at 31st December	Carrying amount	Trading portfolios	Non-trading portfolios
<b>Assets subject to Market risk</b>			
Cash and cash equivalent	3,758,858,141	-	3,758,858,141
Placements with banks	8,436,353,244	-	8,436,353,244
Equity Instruments at fair value through profit or loss	145,160	145,160.00	-
Financial investments at amortised cost-Debt & other instruments	46,962,354,137	-	46,962,354,137
Financial assets at amortised cost-Loans and receivables from other c	156,694,052,473	-	156,694,052,473
Loans and receivables from other customers	2,289,919	-	2,289,919
Other assets	1,788,634,829	-	1,788,634,829
<b>Liabilities subject to Market risk</b>			
Due to banks	21,796,679,350	-	21,796,679,350
Due to other customers	172,882,632,278	-	172,882,632,278
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	378,203,555	-	378,203,555
Other liabilities	4,175,418,552	-	4,175,418,552
2019		Market risk measure	
As at 31st December	Carrying amount	Trading portfolios	Non-trading portfolios
<b>Assets subject to Market risk</b>			
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 & 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
<b>Liabilities subject to Market risk</b>			
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

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**46. RISK MANAGEMENT (Contd...)****46.4 Market risk (Contd...)****46.4.1 Exposure to Interest rate risk**

<b>2020</b>	<b>Carrying amount Rs.</b>	<b>Up to 3 Months Rs.</b>	<b>3 to 12 Months Rs.</b>	<b>1 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>
Cash and balances with central	3,758,858,141	3,758,858,141	-	-	-
Placements with banks	8,436,353,244	8,436,353,244	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	156,694,052,473	14,796,747,926	39,609,325,042	75,675,485,513	26,612,493,991
Financial investments at amortised cost- Debt & other instruments	46,962,354,137	35,061,518,730	8,131,932,138		3,768,903,268
Financial assets-fair value through other comprehensive income	2,289,919	-	-		2,289,919
<b>Total undiscounted assets</b>	<b>215,853,907,914</b>	<b>62,053,478,042</b>	<b>47,741,257,180</b>	<b>75,675,485,513</b>	<b>30,383,687,179</b>
Due to banks	21,796,679,350	964,856,386	2,452,135,075	10,993,994,593	7,385,693,296
Due to other customers	172,882,632,278	43,436,693,605	71,161,722,470	27,453,620,386	30,830,595,817
Debt issued and other borrowed funds	2,000,000,000		-	2,000,000,000	-
Other liabilities	4,175,418,552	977,558,122	886,015,662	1,920,572,463	391,272,304
<b>Total undiscounted liabilities</b>	<b>200,854,730,180</b>	<b>45,379,108,114</b>	<b>74,499,873,207</b>	<b>42,368,187,443</b>	<b>38,607,561,416</b>
<b>Interest rate sensitivity</b>	<b>14,999,177,734</b>	<b>16,674,369,928</b>	<b>(26,758,616,027)</b>	<b>33,307,298,070</b>	<b>(8,223,874,238)</b>

<b>2019</b>	<b>Carrying amount Rs.</b>	<b>Up to 3 Months Rs.</b>	<b>3 to 12 Months Rs.</b>	<b>1 to 5 Years Rs.</b>	<b>Over 5 Years Rs.</b>
Cash and balances with central	2,750,187,219	2,750,187,219	-	-	-
Placements with banks	9,798,242,492	9,798,242,492	-	-	-
Financial assets at amortised	136,205,641,441	13,840,904,593	38,789,627,229	69,747,057,058	13,828,052,561
Financial investments at amortised cost- Debt & other instruments	45,664,745,400	22,069,935,725	20,565,579,743	516,934,932	2,512,295,000
Financial assets-fair value	2,289,919	-	-		2,289,919
<b>Total undiscounted assets</b>	<b>194,421,106,470</b>	<b>48,459,270,029</b>	<b>59,355,206,972</b>	<b>70,263,991,990</b>	<b>16,342,637,480</b>
Due to banks	22,050,009,005	1,210,287,929	2,340,021,873	10,485,087,494	801,411,709
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
<b>Total undiscounted liabilities</b>	<b>181,311,961,241</b>	<b>46,869,649,618</b>	<b>62,211,353,358</b>	<b>35,309,372,362</b>	<b>29,708,385,902</b>
<b>Interest rate sensitivity</b>	<b>13,109,145,230</b>	<b>1,589,620,411</b>	<b>(2,856,146,386)</b>	<b>34,954,619,628</b>	<b>(13,365,748,423)</b>

**46.4.2 Exposure to currency risk**

Bank is exposed to foreign currency risk resulting from foreign currency assets and liabilities taken over from former Lanka Puthra Development Bank and loan from Asian Development Bank. Necessary precautions are in place in order to avoid/mitigate possible foreign currency risk in the near future.

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

**46.5 Operational Risk**

‘Operational risk’ is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations.

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated responsibility for operational risk to its Bank Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

**47. CAPITAL MANAGEMENT**

**47.1 Regulatory Capital**

The Bank’s lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Group capital management goals are as follows;

- a. Ensure regulatory minimum capital adequacy of 12.5% requirements are not compromised.
- b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
- c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.
- d. Ensure maintaining of quality capital.
- e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
- f. Ensure capital consumption by business actions are adequately priced.
- g. Ensure Bank’s average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital.

**47. CAPITAL MANAGEMENT (Contd...)****47.2 Capital allocation**

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

**48. SUBSEQUENT EVENTS**

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

**49. Coronavirus (COVID 19) Outbreak**

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

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

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

In this context, it must be noted that, the ECL at 31 December 2020 was estimated based on a range of forecast economic conditions prevailing as at that date. The impact to GDP and other key indicators have been considered when determining the severity and likelihood of the downside economic scenarios that were used to estimate ECL during the course of the financial year 2020. The bank has computed ECL based on the available information as at 31.12.2020 by increasing the weightage assigned for worst case scenario by 5% while reducing the weightage assigned for best-case scenario by 5%.

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