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பிரதேச அபிவிருத்தி வங்கி
RDB Regional Development Bank

Audited Financial Statements

For the year ended 31st December 2021

මගේ අංකය / எனது இல. / My No. BAN/E/RDB/1/2021/07 | ඔබේ අංකය / உமது இல. / Your No. | දිනය / திகதி / Date 29 August 2022

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 2021 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 (the "Bank") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit or loss, 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

1.3 Other information included in the Bank's 2021 Annual Report

The other information comprises the information included in the Bank's 2021 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 2021 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
STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
Gross income	7	**24,492,768,957**	24,354,246,869
Interest income		**23,545,299,165**	23,182,459,141
Interest expenses		**(9,893,373,234)**	(12,294,380,832)
Net interest income	8	**13,651,925,931**	10,888,078,309
Fee and commission income		**935,136,855**	1,143,097,671
Fee and commission expenses		**(312,112,052)**	(271,935,223)
Net fee and commission income	9	**623,024,803**	871,162,448
Net trading gain/(loss)	10	**(24,214,945)**	23,135,814
Other operating income (net)	11	**36,547,883**	5,554,243
Total operating income		**14,287,283,672**	11,787,930,814
Impairment charges	12	**(3,256,775,862)**	(2,010,929,062)
Net operating income		**11,030,507,810**	9,777,001,752
Less-Operating expenses			
Personnel expenses	13	**(7,292,269,883)**	(5,983,362,037)
Depreciation and amortization expenses		**(520,988,009)**	(616,792,758)
Other expenses	14	**(1,290,468,186)**	(1,115,987,925)
Operating profit before taxes		**1,926,781,733**	2,060,859,032
Less : Value Added Tax on Financial Services		**(1,151,277,133)**	(1,047,410,630)
Profit before Income tax expense		**775,504,600**	1,013,448,401
Income tax expense	15	**(469,201,889)**	(609,412,349)
Profit for the year		**306,302,711**	404,036,052
Earnings per share			
Basic Earnings per share	16.1	**0.56**	0.74
Diluted Earnings per share	16.2	**0.56**	0.74

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 73.

PRADESHIYA SANWARDANA BANK

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
Profit for the year		**306,302,711**	404,036,052
Other Comprehensive income/(expenses)			
Other Comprehensive income not to be reclassified to profit or loss			
Actuarial loss on retirement benefit obligation	34.3	**(35,917,534)**	(335,579,854)
Deferred tax effect on above		**8,620,208**	80,539,165
Total Other Comprehensive income for the year, net of taxes		**(27,297,325)**	(255,040,689)
Total comprehensive income for the year		**279,005,386**	148,995,363

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 73.

PRADESHIYA SANWARDANA BANK

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 Rs.	2020 Rs.
Assets			
Cash and cash equivalent	18	**1,486,878,989**	3,758,858,141
Placements with banks	19	**6,596,072,932**	8,436,353,244
Equity instruments at fair value through profit or loss	20	**188,140**	145,160
Financial assets at amortised cost - Loans and receivables from other customers	21	**175,229,666,656**	156,694,052,473
Financial assets at amortised cost - Debt & other instruments	22	**54,856,210,318**	46,962,354,137
Equity instruments at fair value through other comprehensive income	23	**2,289,919**	2,289,919
Property, plant and equipment	24	**928,568,438**	970,538,655
Intangible assets	25	**113,688,780**	21,272,699
Right of use assets	26.1	**505,092,023**	598,978,557
Deferred tax assets	27	**1,263,795,071**	903,720,969
Other assets	28	**4,907,060,297**	2,760,586,570
Total assets		**245,889,511,562**	221,109,150,524
Liabilities			
Due to banks	29	**29,500,936,543**	21,796,679,350
Due to other customers	30	**187,752,465,256**	172,882,632,278
Debt issued and other borrowed funds	31	**2,000,000,000**	2,000,000,000
Current tax liabilities	32	**503,021,886**	378,203,555
Other liabilities	33	**7,693,300,812**	6,154,443,776
Retirement benefit obligation	34	**3,046,464,739**	2,782,874,624
Total liabilities		**230,496,189,235**	205,994,833,583
Equity			
Stated capital	35	**8,047,229,930**	8,047,229,930
Statutory reserve fund	36	**777,778,133**	762,462,998
Retained earnings		**2,636,433,520**	2,449,318,948
Other reserves	37	**3,931,880,743**	3,855,305,066
Total shareholders' equity		**15,393,322,327**	15,114,316,941
Total equity and liabilities		**245,889,511,562**	221,109,150,524
Contingent liabilities and commitments	40	**225,888,152**	202,334,713

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 73.

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	A.H.M.M.B. Jayasinghe
Chief Financial Officer	General Manager / CEO

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

....	....
Chairman/ Director	Director

18th August 2022

PRADESHIYA SANWARDANA BANK

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Stated Capital Note 35 Rs.	Statutory Reserve Fund Note 36 Rs.	Special Reserve Fund Note 37 Rs.	General Reserve Fund Note 37 Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01st January 2020	8,047,229,930	742,261,195	596,651,523	3,157,644,530	2,421,534,400	14,965,321,578
Total Comprehensive Income for the year						
Profit for the year	-	-	-	-	404,036,052	404,036,052
Other comprehensive Income, net of tax	-	-	-	-	(255,040,689)	(255,040,689)
Total comprehensive income for the year	-	-	-	-	148,995,363	148,995,363
Transactions with equity holders, recognized directly in equity						
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)	-
Transactions with equity holders, recognized directly in equity	-	20,201,803	20,201,803	80,807,210	(121,210,816)	-
Balance as at 31st December 2020	8,047,229,930	762,462,998	616,853,326	3,238,451,740	2,449,318,947	15,114,316,941
Balance as at 01st January 2021	**8,047,229,930**	**762,462,998**	**616,853,326**	**3,238,451,740**	**2,449,318,948**	**15,114,316,941**
Total Comprehensive Income for the year						
Profit for the year	-	-	-	-	**306,302,711**	**306,302,711**
Other comprehensive Income, net of tax	-	-	-	-	**(27,297,325)**	**(27,297,325)**
Total comprehensive income for the year	-	-	-	-	**279,005,386**	**279,005,386**
Transactions with equity holders, recognized directly in equity						
Transferred to Statutory Reserve Fund	-	**15,315,136**	-	-	**(15,315,136)**	-
Transferred to Special Reserve Fund	-	-	**15,315,135**	-	**(15,315,135)**	-
Transferred to General Reserve Fund	-	-	-	**61,260,542**	**(61,260,542)**	-
Transactions with equity holders, recognized directly in equity	-	**15,315,136**	**15,315,135**	**61,260,542**	**(91,890,813)**	-
Balance as at 31st December 2021	**8,047,229,930**	**777,778,133**	**632,168,461**	**3,299,712,282**	**2,636,433,521**	**15,393,322,327**

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 73.

PRADESHIYA SANWARDANA BANK

STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
Cash flow from operating activities			
Profit before tax		**775,504,601**	2,060,859,032
Adjustment for:			
Non-cash items included in profit before tax			
Depreciation of property, plant and equipment/ Amortization of ROU	24	**490,215,777**	591,176,191
Amortization of intangible assets	25	**30,772,231**	25,616,567
Interest expense on leases	26.2	**229,798,098**	-
Interest expense on debentures		**311,500,000**	-
Dividend income	10	**(10,209,840)**	-
Staff loan adjustment		**-**	326,777,343
Impairment charges	12	**3,256,775,862**	2,010,929,062
Changes in equity Instruments at fair value through profit or loss	10	**(42,980)**	(22,160)
Exchange gain/ (loss)	10	**34,467,765**	(23,102,434)
Charge for retirement benefit obligation	34.1	**379,779,626**	389,587,045
Movements of other funds		**-**	26,719,629
(Profit) / loss on sale of Property, plant and equipment	11	**(18,134,116)**	349,129
Recoveries of NPL loans (Written Off)	11	**(441,823)**	(184,320)
Changes in operating assets			
Net change in loans and receivables from other customers		**(21,794,891,917)**	(22,405,498,881)
Net Change in other assets		**(2,167,393,709)**	(28,162,728)
Net change in Financial investments at amortised cost-Debt & other instruments		**(1,033,112,853)**	(783,385,821)
Changes in operating liabilities			
Net change in due to banks		**3,081,261,163**	377,454,313
Net change in due to other customers		**14,869,832,978**	23,257,229,441
Net change in other liabilities		**1,456,574,150**	183,523,330
Gratutiy paid	34.1	**(134,929,431)**	(142,040,058)
Taxes on financial services			(1,276,059,797)
Tax Paid	32	**(695,837,450)**	(806,955,563)
Net cash generated from/(used in) operating activities		**(938,511,867)**	3,784,809,318
Cash flows from investing activities			
Purchase of Property, plant and equipment	24	**(202,693,190)**	(45,854,295)
Purchase of intangible assets	25	**(123,380,926)**	(1,532,923)
Withdrawal / (Investment) in Debenture	22.1	**392,280,000**	(500,000,000)
Investment in Fixed deposits (more than three months)	22.2	**(3,220,344,943)**	9,300,148,156
Proceeds from the sale of property, plant and equipment		**17,453,993**	888,491
Dividend Income Received	10	**10,209,840**	11,220
Net cash (used in)/from investing activities		**(3,126,475,226)**	8,753,660,649
Cash flows from financing activities			
Payment of principal of Operating Lease	26.2	**(326,522,434)**	(318,229,934)
Net proceeds from the Term Loans	29	**4,807,413,840**	(630,783,966)
Redemption of Debentures	31.1	**-**	(2,500,000,000)
Interest paid on debentures	31.1	**(311,500,000)**	(207,852,534)
Net cash from financing activities		**4,169,391,406**	(3,656,866,435)
Net increase/(decrease) in cash & cash equivalents		**104,404,312**	8,881,603,532
Cash & cash equivalents at the beginning of the year		**43,466,344,201**	34,584,740,669
Cash and cash at the end of the year		**43,570,748,513**	43,466,344,201
Reconciliation of Cash & Cash Equivalents			
Cash and cash equivalent	18	**1,486,878,989**	3,758,858,141
Favorable balances with banks			
Placements with Banks	19	**6,596,072,932**	8,436,353,244
Fixed deposits less than three months	21.2	**35,579,154,747**	31,546,908,781
Unfavorable balances with banks		**(91,358,155)**	(275,775,965)
		43,570,748,513	43,466,344,201

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 73.

1. GENERAL INFORMATION

1.1 Reporting Entity

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

Permanent, training and contract staff strength of the bank as at 31 December 2021 was 3,226 (3,312 as at 31 December 2020).

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 2021 were authorized for issue by the Board of Directors on 18th August 2022.

2. BASIS OF PREPARATION

2.1 Basis of Measurement

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

- The liability for defined benefit obligations is actuarially valued and recognized as the present value of the defined benefit obligation.
- Derivative financial instruments and non- derivative financial instruments held at Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value.

2.2 Statement of Compliance

The Financial Statements, as at 31 December 2021 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 Materiality and Aggregation

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

2.5 Offsetting

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 Comparative Information

The comparative information is reclassified whenever necessary to conform with the current year's presentation and to be in compliance with the Circular No 2 of 2019 issued by Central Bank of Sri Lanka on publication of Annual and Quarterly Financial Statements and other Disclosures by Licensed banks in order to provide a better presentation.

2.7 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 44.

2.8 Statement of Alternative Treatment (SoAT)

Further, the tax liability arising from the Surcharge Tax Act No: 14 of 2022 has been accounted as recommended by the Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka as disclosed under the Note 15 on Income Taxes.

3. USE OF ESTIMATES AND JUDGEMENTS

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.

Coronavirus (Covid-19) Pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Bank's performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these Financial Statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these Financial Statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(i) Judgements

(a) Classification of Financial Assets

The Bank used judgements when assessing of the business model within which the assets are held and assessment whether the contractual terms of the financial assets are solely payments of principal and interest (SPPI) on the principal amount of the outstanding.

(b) Assessment of Credit Risk

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

(c) 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 recognized 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.

(ii) Assumptions and Estimation Uncertainty

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.

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.

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 15, Note 27 and Note 32.

Measurement of Defined Benefit Obligations

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.

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.

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.

4. CHANGES IN ACCOUNTING POLICIES

A fundamental reform of major interest rate benchmark is being undertaken globally, replacing certain interbank offered rates (“IBORs”) with alternative nearly risk free rates (referred to as “IBOR reform”) Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform Phase 1 and Phase 2. The effective date of both IBOR reform Phase 1 and Phase 2 amendments are for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context and the requirements under phase 2 amendments have to be applied retrospectively.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms and revision of operational controls related to the reform and regulatory risk.

Financial risk is predominantly limited to interest rate risk. Bank has commenced a process to evaluate the impact from this reform on its financial instruments. This process will involve evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform, how to manage communication about IBOR reform with counterparties and the changes required for the existing credit policies.

As at 31 December 2021, the IBORs for certain key currencies to which the Bank has exposure to are in the process of reforming.

5. SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

The Accounting Policies have been applied consistently by the Bank except for the changes in accounting policies described in Note 4.

5.1 Financial Assets and Liabilities

5.1.1 Recognition and Initial Measurement

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.

5.1.2 Classification 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 FVTPL, 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.

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.

5.1.2.1 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 (Note 5.1.2.1.1)
- Financial assets measured at fair value through other comprehensive income (Note 5.1.2.1.3)
- Financial assets fair value through profit or loss (FVTPL), as explained in (Note 5.1.2.1.2)

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.

5.1.2.1.1 Financial assets at amortized cost - Loans and advances to customers

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.

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.

Assessment of whether Contractual Cash Flows are Solely Payments of Principal and Interest (SPPI)

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 FVTPL.

5.1.2.1.2 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 recognized at fair value, with transaction costs recognized in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized 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.

Financial investments - for trading

A financial investment is classified as financial assets recognized 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 recognized through profit or loss and recognised at fair value. Refer Note 20.

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.

5.1.2.1.3 Financial assets measured at fair value through other comprehensive income

Investment in equity instruments that are neither trading financial assets recognized through profit or loss, nor contingent consideration recognized 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 recognized 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.

5.1.2.2 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) (Note 5.1.2.2.1)
    - Financial liabilities held for trading
    - Financial liabilities designated at fair value through profit or loss
- Financial liabilities at amortised cost (Note 5.1.2.2.2)

The subsequent measurement of financial liabilities depends on their classification.

5.1.2.2.1 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.

5.1.2.2.2 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.

5.1.2.3 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 2021.

5.1.2.4 De-recognition of financial assets and liabilities

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.

De-recognition other than for substantial modification

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.

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.

5.1.2.5 Impairment

Recognition of ECL

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

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

Both LTECLs and 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 12 month ECLs. 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.

The calculation of ECLs

The Bank calculates ECLs based on 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 12 months 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.

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

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.

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.

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

5.1.3 Collateral valuation

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

5.1.3.1 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.

5.1.4 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.

5.1.5 Forborne and modified loans

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

When the loan has been renegotiated or modified but not de-recognized, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 21.3. The Bank also considers whether the assets should be classified as Stage 3.

5.1.6 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.

5.1.7 Offsetting Financial Instruments

Financial assets and financial liabilities are off set 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.

5.2 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.

5.3 Leases

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in SLFRS 16.

5.3.1 Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments.
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets separately and lease liabilities under other liabilities in the Statement of Financial Position.

5.3.1.1 Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

5.3.2 Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

5.4 Intangible Assets

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

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

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

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

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

- Computer software   3 years

5.5 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.

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU, subject to an operating segment ceiling test.

Am impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the Profit or Loss Statement.

5.6 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.

5.7 Retirement Benefit Obligation

5.7.1 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".

5.7.2 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 2021 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.

5.7.3 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%.

5.8 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.

5.9 Recognition of Income and Expenses

5.9.1 Interest Income and Expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the Income Statement.

Interest income on FVOCI investment securities calculated on an effective interest basis is also included in interest income.

5.9.2 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:

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.

5.9.3 Net Gains/ (Losses) from Trading

This income comprises gains less losses related to trading / FVTPL assets and includes all realized and unrealized fair value changes.

5.9.4 Profits / Losses from Sale of Property, Plant and Equipment

Any profits or losses from sale of property, plant and equipment are recognized in the period in which the sale occurs and is classified as net other operating income.

5.10 Taxation

As per Sri Lanka Accounting Standard - LKAS 12 – "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is 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.

5.10.1 Current Tax

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

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto at the rates specified in Note 15 to the Financial Statements.

5.10.2 Deferred Tax

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

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

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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

5.10.3 VAT on Financial Services

The value base for Value Added Tax (VAT) for the Bank is the adjusted accounting profit before tax, emoluments of employees and economic depreciation computed for the owned fixed assets. The total value addition arrived for the entire bank has to be apportioned in accordance to the applicable turnover; turnover has to be quantified in line with the turnover applicable for general VAT and VAT on Financial Services. The Value Addition Attributable for Financial Services" shall be derived with the application of the turnover ratio distinguishing general VAT and VAT on Financial Services. Tax fraction 15/115 shall be applied (it has been proposed to change the rate on VAT on Financial Services from 15/115 to 18/118 with effect from January 2022) on the value addition attributable to financial services in order to derive the total VAT liability for a particular period.

5.10.4 Withholding Tax (WHT) on Dividends

Dividends distributed out of profits after tax attract a 14% tax deduction in the hands of the dividend recipient (individuals are taxes at the progressive tax rates, 6%, 12% and balance 18%). Unlike in the period before January 2020, withholding tax on dividends is not a tax at source and it shall not be deducted at the time of dividends are distributed; the shareholders shall receive dividends at gross.

Withholding Tax on Dividends has been abolished with effect from 1 January 2020 as per the Inland Revenue Amendment Act No 10 of 2021. Therefore, dividend income shall not be subject to withholding tax further with effect from 1 January 2020.

With the introduction of the Inland Revenue Amendment Act No 10 of 2021, any dividends paid out of the dividends received, shall be exempted from income tax net of the cost of funds. In addition, if a resident company pays the dividend to a nonresident person (including a company) such would be totally exempt from income tax.

5.10.5 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.

5.10.6 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.

5.10.7 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.

Section 14 of the Finance Act No. 12 of 2013 impose a crop insurance levy on institutions under the purview of;

- Banking Act No. 30 of 1988
- Finance Companies Act No. 78 of 1988
- Regulation of Insurance Industry Act No. 43 of 2000

Accordingly, Bank is required to pay 1% of the profit after tax for a year of assessment to the National Insurance Trust Fund with effect from 1 April 2013.

5.10.8 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.

5.11 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.

5.12 Earnings per Share (EPS)

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

5.13 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.

5.14 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.

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.

5.15 Reserves

5.15.1 Statutory Reserve Fund

The Statutory Reserve Fund is maintained as required in terms of the section 20 (1) and (2) of the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer a sum equivalent not less than 5% out of net profit after taxation but before any dividend is declared to the Statutory Reserve Fund until the Statutory Reserve Fund is equal to 50% of the paid-up capital.

5.15.2 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.

5.15.3 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.

6 ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2021. Accordingly, the Bank has not applied the following new standards in preparing these Financial Statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g., leases. For leases, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Bank accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the Statement of Financial Position. Under the amendments, the Bank will recognize a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the deductible temporary difference in relation to the right-of-use asset is Rs. 456,594,851 and the taxable temporary difference in relation to the lease liability is Rs. 149,871,407. The total effect of deferred tax movement for the accounting period ending 31 December 2021 has resulted to a net deferred tax liability of Rs. 201,048,274.

The Bank presents a separate deferred tax liability of Rs. 201,048,274 and a deferred tax asset of Rs. 1,464,843,345 where the net effect resulting to Rs. 1,263,795,071 (Note 27). There will be no impact on retained earnings on adoption of the amendments.

Other Standards

The following new and amended standards are not expected to have a significant impact on the Bank's Financial Statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37).
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to SLFRS 16)
- Annual Improvements to SLFRS Standards 2018–2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Reference to Conceptual Framework (Amendments to SLFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to LKAS 8).

7 GROSS INCOME

	2021 Rs.	2020 Rs.
Interest income **(Note 8.1)**	**23,545,299,165**	23,182,459,141
Fee and commission income **(Note 9)**	**935,136,855**	1,143,097,671
Net trading gain/(loss) **(Note 10)**	**(24,214,945)**	23,135,814
Other operating income **(Note 11)**	**36,547,883**	5,554,243
Total Gross Income	**24,492,768,957**	24,354,246,869

8 NET INTEREST INCOME

8.1 Interest Income

	2021 Rs.	2020 Rs.
Placements with banks	**364,966,827**	532,551,255
Financial assets at amortised		
Loans and receivables from other customers	**19,937,925,746**	19,130,733,803
Debt & other instruments	**3,242,406,591**	3,519,174,083
Total interest income	**23,545,299,165**	23,182,459,141

8.2 Interest expense

	2021 Rs.	2020 Rs.
Due to banks	**(1,180,999,383)**	(1,226,169,605)
Due to other customers	**(8,483,808,364)**	(10,949,016,609)
Interest expense on lease liabilities	**(228,565,487)**	(119,194,618)
Total interest expenses	**(9,893,373,234)**	(12,294,380,832)
Net interest income	**13,651,925,931**	10,888,078,309

9 NET FEE AND COMMISSION INCOME

	2021 Rs.	2020 Rs.
Fee and commission income	**935,136,855**	1,143,097,671
Fee and commission expenses	**(312,112,052)**	(271,935,223)
Net fee and commission income	**623,024,803**	871,162,448
Comprising		
Loans	**834,390,141**	850,809,944
Trade and remittances	**7,927,757**	6,844,618
Deposits	**(274,099,141)**	(251,912,550)
Others	**54,806,046**	265,420,436
Net fee and commission income	**623,024,803**	871,162,448

10 NET TRADING GAIN/(LOSS)

	2021 Rs.	2020 Rs.
Financial assets recognised through profit or loss - fair value change	**42,980**	22,160
Exchange (loss)/ gain	**(34,467,765)**	23,102,434
Dividend income	**10,209,840**	11,220
Total	**(24,214,945)**	23,135,814

11 NET OTHER OPERATING INCOME

	2021 Rs.	2020 Rs.
Gain/ (Loss) on disposal of property, plant and equipment	**18,134,116**	(349,129)
Gain/ (Loss) on disposal of intangible assets	**-**	-
Recovery of loans written off	**441,823**	184,320
Other income	**17,971,945**	5,719,052
Total	**36,547,883**	5,554,243

12 IMPAIRMENT CHARGES

	2021 Rs.	2020 Rs.
Placement with banks **(Note 19.1)**	**-**	32,450
Financial assets at amortised cost - Loans and receivables from other customers **(Note 21.2)**	**(3,259,719,557)**	(2,012,924,828)
Financial assets measured at amortised cost - debt and other instruments **(Note 22.3)**	**432,420**	5,592,779
Undrawn credit commitments and financial guarantees **(Note 40.1.1)**	**(1,265,710)**	147,522
Other assets **(Note 28.1)**	**3,776,985**	(3,776,986)
Net impairment (charge) / reversal for loans and other losses	**(3,256,775,862)**	(2,010,929,062)

13 PERSONNEL EXPENSES

	2021 Rs.	2020 Rs.
Salary and bonus	**4,740,121,879**	3,901,689,870
Contributions to EPF/ETF	**732,569,872**	608,545,771
Contributions to defined benefit plans	**417,763,843**	389,587,045
Others	**1,401,814,289**	1,083,539,351
Total	**7,292,269,883**	5,983,362,037

14 OTHER EXPENSES

	2021 Rs.	2020 Rs.
Directors' emoluments	**3,510,000**	4,014,000
Auditors' remunerations	**2,400,000**	2,800,000
Professional and legal expenses	**13,199,075**	7,490,055
Office administration and establishment expenses	**900,940,590**	812,296,503
Computerization expenses	**186,225,340**	140,863,838
Business tax expenses	**3,521,405**	956,266
Other commission paid	**930,266**	147,460
Deposit Insurance Premium	**167,038,634**	136,004,590
Crop insurance levy	**9,716,275**	8,565,973
Staff security deposits interest	**2,978,933**	2,849,238
Capital loss on pawning advance	**7,668**	-
Total	**1,290,468,186**	1,115,987,925

15 INCOME TAX EXPENSE

15.1 Amounts Recognised in Profit or Loss

	2021 Rs.	2020 Rs.
Current Tax Expense		
Tax on current year's profits **(Note 15.3)**	**752,050,328**	723,625,797
Under provision in respect of previous years	**68,605,453**	12,651,872
	820,655,781	736,277,669
Deferred Tax Expense		
Reversal on temporary differences **(Note 27.2)**	**(351,453,892)**	(126,865,320)
	(351,453,892)	(126,865,320)
Total income tax expense recognised in profit or loss	**469,201,889**	609,412,349

15.2 Amounts Recognised in Other Comprehensive Income

	2021 Rs.	2020 Rs.
Deferred Tax Expense		
Reversal on temporary differences **(Note 27.2)**	**(8,620,208)**	(80,539,165)
Total income tax expense recognised in other comprehensive income	**(8,620,208)**	(80,539,165)

15.3 Reconciliation of the accounting profit to income tax expense

	2021 Rs.	2020 Rs.
Profit before income tax expense	**775,504,600**	1,013,448,401
Exempt income	**(514,904,089)**	(11,220)
Add : Disallowable expenses	**5,772,134,980**	3,914,717,164
Less : Allowable expenses	**(2,905,148,199)**	(1,913,046,856)
Taxable income	**3,127,587,292**	3,015,107,489
Income tax rate	**24% / 14%**	24%
Tax @ 24%	**750,620,950**	723,625,797
Tax @ 14%	**1,429,378**	-
Tax on current year's profits	**752,050,328**	723,625,797
Deferred tax reversal **(Note 27.2)**	**(351,453,892)**	(126,865,320)
Under provision in respect of previous years	**68,605,453**	12,651,872
Income tax expense	**469,201,890**	609,412,349
Effective current tax rate	**60.50%**	60.13%

15.4 Reconciliation of effective tax rate

	2021 %	2021 Rs.	2020 %	2020 Rs.
Profit before income tax expense		**775,504,600**		1,013,448,401
Income tax for the period	**24.00%**	**186,121,104**	24.00%	243,227,616
Tax effect of expenses that are not deductible for tax purposes	**178.63%**	**1,385,312,395**	92.71%	939,532,119
Tax effect of expenses that are deductible for tax purposes	**-89.91%**	**(697,235,568)**	-45.30%	(459,131,245)
Exempt income	**-15.94%**	**(123,576,981)**	0.00%	(2,693)
Tax on Dividend Income	**0.18%**	**1,429,378**	0.00%	-
Deferred tax reversal **(Note 27.2)**	**-45.3%**	**(351,453,892)**	-12.5%	(126,865,320)
(Over)/ under provision in respect of previous years	**8.85%**	**68,605,453**	1.25%	12,651,872
Total Income Tax Expense	**60.50%**	**469,201,889**	60.13%	609,412,349

Except for the Dividend income receipts, current tax on profits from Banking and Leasing businesses has been computed at the rate of 24% , dividend income taxed at the rate of 14%. Apart from that, Interest received on Foreign currency accounts are exempted from Income Tax.

As per the Inland Revenue amendment Act No. 10 of 2021, the rate of Income Tax has been changed from 28% to 24% with effect from 01st January 2020. Under such circumstances, the business of banking has been taxed at using the rate of 24% in calculating the current tax charge and the deferred tax liabilities/assets for the ending 31st December 2021.

15.5 Surcharge tax levied under Surcharge Act No.14 of 2022 (ST Act)

The Government of Sri Lanka in its Budget for 2022 proposed a one- time tax, referred to as a surcharge tax, at the rate of 25% to be imposed on any companies that have earned a taxable income in excess of LKR 2,000 million for the year of assessment 2021/2022. The tax is imposed by the Surcharge Tax Act No 14 of 2022 which was passed by the Parliament of Sri Lanka on 7th April 2022. As the law imposing the surcharge tax was enacted after the reporting period end, the financial statements for the year ended 31 December 2021 do not reflect the tax liability that would arise in consequence, the amount of which is best estimated at (Rs.800,598,848)

16 EARNINGS PER SHARE

16.1 Basic Earnings per Share

Basic Earnings per Share has been calculated by dividing Profit after Tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31 December 2021 and 2020.

For the Year ended 31st December	**2021**	2020
Profit for the year attributable to ordinary equity holders of the Bank (Rs.)	**306,302,711**	404,036,052
Weighted average number of ordinary shares in issue (No.)	**545,107,049**	545,107,049
Basic earnings per ordinary share	**0.56**	0.74

16.2 Diluted Earnings per Share

Diluted Earnings per Share and the Basic Earnings per Share is the same due to non-availability of potentially dilutive Ordinary Shares.

17 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

As at 31 December 2021	Note	Financial assets measured at fair value through other profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
		Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and cash equivalent	18	-	1,486,878,989		1,486,878,989
Placements with banks	19	-	6,596,072,932	-	6,596,072,932
Equity Instruments at fair value through profit or loss	20	188,140	-	-	188,140
Financial assets at amortised cost-Loans and receivables from other customers	21	-	175,229,666,656	-	175,229,666,656
Financial investments at amortised cost-Debt & other instruments	22	-	54,856,210,318	-	54,856,210,318
Equity Instruments at fair value through other comprehensive income	23	-	-	2,289,919	2,289,919
Other financial assets	28	-	3,721,641,936	-	3,721,641,936
Total financial assets		**188,140**	**241,890,470,831**	**2,289,919**	**241,892,948,890**

As at 31 December 2021	Note	Financial Liabilities measured at fair value through other profit or loss	Financial Liabilities measured at amortised cost	Financial Liabilities measured at fair value through other comprehensive income	Total
			Rs.	Rs.	Rs.
Financial Liabilities					
Due to banks	29	-	29,500,936,543	-	29,500,936,543
Due to other customers	30	-	187,752,465,256	-	187,752,465,256
Debt issued and other borrowed funds	31	-	2,000,000,000	-	2,000,000,000
Other liabilities	33	-	5,514,857,775	-	5,514,857,775
Total financial liabilities		**-**	**224,768,259,574**	**-**	**224,768,259,574**

As at 31 December 2020	Note	Financial assets measured at fair value through other profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
		Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and cash equivalent	18	-	3,758,858,141	-	3,758,858,141
Placements with banks	19	-	8,436,353,244	-	8,436,353,244
Financial assets held-for-trading/Equity Instruments at fair value through profit or loss	20	145,160	-	-	145,160
Financial assets at amortised cost-Loans and receivables from other customers	21	-	156,694,052,473	-	156,694,052,473
Financial assets at amortised cost-Debt & other instruments	22	-	46,962,354,137	-	46,962,354,137
Equity Instruments at fair value through other comprehensive income	23	-	-	2,289,919	2,289,919
Other financial assets	28	-	1,788,634,829	-	1,788,634,829
Total financial assets		**145,160**	**217,640,252,824**	**2,289,919**	**217,642,687,903**

As at 31 December 2020	Note	Financial Liabilities measured at fair value through other profit or loss	Financial Liabilities measured at amortised cost	Financial Liabilities measured at fair value through other comprehensive income	Total
				Rs.	Rs.
Financial Liabilities					
Due to banks	29	-	21,796,679,350	-	21,796,679,350
Due to other customers	30	-	172,882,632,278	-	172,882,632,278
Debt issued and other borrowed funds	31	-	2,000,000,000	-	2,000,000,000
Other liabilities	33	-	4,175,418,552	-	4,175,418,552
Total financial liabilities		**-**	**200,854,730,180**	**-**	**200,854,730,180**

18 CASH AND CASH EQUIVALENTS

	2021 Rs.	2020 Rs.
Cash in hand	**839,013,334**	770,872,112
Other bank balances	**647,865,655**	2,987,986,029
	1,486,878,989	3,758,858,141

19 PLACEMENTS WITH BANKS

	2021 Rs.	2020 Rs.
Money market placements	**6,596,072,932**	8,436,353,244
Less : Expected credit loss allowance **(Note 19.1)**	**-**	-
Total placements with banks	**6,596,072,932**	8,436,353,244

19.1 Movement in expected credit loss allowance

	2021 Rs.	2020 Rs.
Stage 1		
Balance as at 01 January	-	32,450
During the year charge/ (reversal)	-	(32,450)
Balance as at 31 December	-	-

20 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021			2020		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
Quoted Equities						
People's Merchant Bank PLC	**600**	**5,160**	**4,140**	600	6,600	5,160
Seylan Development PLC	**10,000**	**140,000**	**184,000**	10,000	109,000	140,000
	10,600	**145,160**	**188,140**	10,600	115,600	145,160

21 FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES FROM OTHER CUSTOMERS

	2021 Rs.	2020 Rs.
Gross loans and receivables **(Note 21.1)**	**189,039,666,420**	167,099,049,722
(Less): Staff loan fair value adjustment	**(870,864,778)**	(726,321,226)
	188,168,801,643	166,372,728,496
Less: Expected Credit Loss Allowance - Individual Impairment **(Note 21.2.1)**	**(1,581,171,535)**	(2,562,109,132)
Less: Expected Credit Loss Allowance - Collective Impairment **(Note 21.2.2)**	**(11,357,963,452)**	(7,116,566,892)
Net loans and receivables from other customers	**175,229,666,656**	156,694,052,473

21.1 Analysis of Financial Assets at Amortised Cost - Loans and Receivables from Other Customers

	2021 Rs.	2020 Rs.
21.1.1 By product		
Pawning	**20,173,958,657**	15,433,723,728
Staff loans	**4,614,968,345**	4,122,588,706
Leasing	**969,406,200**	961,273,886
Short-term	**9,989,450,293**	10,307,093,390
Long-term	**153,291,882,926**	136,274,370,012
Gross total	**189,039,666,420**	167,099,049,722
21.1.2 By currency		
Sri Lankan rupee	**189,039,666,420**	167,099,049,722
Gross total	**189,039,666,420**	167,099,049,722
21.1.3 By industry		
Agriculture and fishing	**51,314,868,161**	48,067,426,767
Manufacturing	**28,605,048,280**	27,926,498,149
Leasing	**969,406,200**	961,273,886
Transport	**77,854,618**	132,915,217
Construction /housing	**24,484,171,958**	22,715,647,404
Traders	**31,526,204,748**	30,585,377,970
Others (consumptions/against deposit/staff/tourism)	**52,062,112,455**	36,709,910,328
Gross total	**189,039,666,420**	167,099,049,722

		2021 Rs.	2020 Rs.
21.2	**Expected Credit Loss Allowance**		
21.2.1	**Individual Impairment**		
	Balance as at 01 January	**2,562,109,132**	1,643,127,789
	Net charge to profit or loss	**(980,937,597)**	918,981,343
	Other movements / Write off	**-**	-
	Balance as at 31 December	**1,581,171,535**	2,562,109,132
21.2.2	**Collective Impairment**		
	Balance as at 01 January	**7,116,566,892**	6,024,186,378
	Net charge to profit or loss	**4,240,657,154**	1,093,943,485
	Other movements / Write off	**739,407**	(1,562,972)
	Balance as at 31 December	**11,357,963,453**	7,116,566,892

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

As at 31 December 2021	**Stage 1 Rs.**	**Stage 2 Rs.**	**Stage 3 Rs.**	**Total Rs.**
Individually impaired loans	-	-	4,068,587,727	**4,068,587,727**
Loans subjected to collective impairment				
Term Loan Other	5,152,133,697	498,664,202	1,365,934,028	**7,016,731,928**
Term Loan Industrial	8,313,820,445	5,375,832,322	3,541,687,459	**17,231,340,226**
Term Loan Commercial	15,706,847,346	6,527,785,774	4,423,695,584	**26,658,328,704**
Term Loan Agriculture	14,471,577,935	5,656,147,322	3,051,767,224	**23,179,492,481**
Term Loan Housing	35,546,451,023	6,906,851,613	4,580,982,935	**47,034,285,570**
Refinance	19,968,852,819	7,495,970,359	4,046,508,276	**31,511,331,454**
Liyaisura	235,526	176,532	37,368,607	**37,780,664**
Pawning	19,462,956,439	523,219,611	187,782,607	**20,173,958,657**
Leasing	771,438,998	65,576,219	16,262,297	**853,277,513**
Staff loans	4,594,875,972		20,092,373	**4,614,968,345**
Loans Against Deposits	6,534,465,899		1,254,395	**6,535,720,294**
SME			123,862,856	**123,862,856**
Gross loans to & receivable from other customers	**130,523,656,099**	**33,050,223,952**	**25,465,786,369**	**189,039,666,420**
Impairment for expected credit losses	(2,530,819,723)	(3,038,214,893)	(7,370,100,371)	**(12,939,134,987)**
Net loans to & receivable from other customers *	**127,992,836,376**	**30,012,009,059**	**18,095,685,999**	**176,100,531,433**

As at 31 December 2020	**Stage 1 Rs.**	**Stage 2 Rs.**	**Stage 3 Rs.**	**Total Rs.**
Individually impaired loans	-	-	6,813,320,247	**6,813,320,247**
Loans subjected to collective impairment				
Term Loan Other	4,234,623,914	859,822,907	670,313,450	**5,764,760,271**
Term Loan Industrial	9,466,658,390	3,364,330,703	3,791,446,814	**16,622,435,908**
Term Loan Commercial	16,056,332,983	4,285,764,437	4,565,938,452	**24,908,035,872**
Term Loan Agriculture	16,621,164,808	3,272,720,095	3,406,065,401	**23,299,950,303**
Term Loan Housing	28,575,780,220	5,997,747,637	4,891,799,882	**39,465,327,739**
Refinance	16,174,528,457	4,555,496,407	2,479,226,222	**23,209,251,087**
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	6,481,771,643			**6,481,771,643**
SME			125,408,455	**125,408,455**
Gross loans to & receivable from other customers	**116,780,882,633**	**23,240,595,755**	**27,077,571,333**	**167,099,049,722**
Impairment for expected credit losses	(1,542,211,585)	(1,263,209,626)	(6,873,254,812)	**(9,678,676,023)**
Net loans to & receivable from other customers *	**115,238,671,048**	**21,977,386,129**	**20,204,316,521**	**157,420,373,698**

* before zero rated loan and staff loan adjustments

		2021	2020
		Rs.	Rs.
22	**FINANCIAL ASSETS AT AMORTISED COST-DEBT AND OTHER INSTRUMENTS**		
	Quoted debentures **(Note 22.1)**	**623,946,610**	1,025,565,069
	Government debt securities-treasury bills & bonds	**4,813,547,891**	3,771,096,580
	Investment in Fixed Deposits **(Note 22.2)**	**49,420,476,709**	42,167,885,800
	Total financial assets at amortised cost	**54,857,971,211**	46,964,547,449
	Less: Expected Credit Loss Allowance **(Note 22.3)**	**(1,760,892)**	(2,193,312)
	Net financial assets at amortised cost	**54,856,210,318**	46,962,354,137

22.1 Quoted Debentures

	2021			2020		
	No of Debentures	**Cost of Investment**	**Amortized Cost**	No of Debentures	Cost of Investment	Amortized Cost
		Rs.	**Rs.**		Rs.	Rs.
Commercial Bank of Ceylon PLC	-	-	-	5,000,000	500,000,000	516,934,932
DFCC	**5,000,000**	**500,000,000**	**508,630,137**	5,000,000	500,000,000	508,630,137
Seylan Bank	**1,077,200**	**107,720,000**	**115,316,473**	-	-	-
Total	**6,077,200**	**607,720,000**	**623,946,610**	10,000,000	1,000,000,000	1,025,565,069

	As at 31 December	2021	2020
		Rs.	Rs.
22.2	**Investment in Fixed Deposits**		
	Fixed deposits less than three months	**35,579,154,747**	31,546,908,781
	Fixed deposits more than three months	**13,841,321,963**	10,620,977,019
	Total	**49,420,476,709**	42,167,885,800
22.2.1	**Analysis of Financial Assets at Amortised Cost - Debt and Other Instruments**		
22.2.1.1	**By Currency**		
	Sri Lankan Rupee	**38,621,426,282**	37,579,401,449
	United States Dollar	**10,799,050,427**	4,588,484,351
	Total Financial assets measured at amortised cost	**49,420,476,709**	42,167,885,800
22.2.1.2	**By Collateralisation**		
	Pledged as collateral	**2,799,724,148**	2,655,976,884
	Unencumbered	**46,620,752,561**	39,511,908,916
	Total Financial assets measured at amortised cost	**49,420,476,709**	42,167,885,800
22.2.1.3	**Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments**		
	Balance as at 1 January	**4,794,468,337**	3,180,139,932
	Net Acquisitions and Maturities during the Year	**643,026,165**	1,616,521,717
	Less: Expected Credit Loss Allowance **(Note 22.3)**	**(1,760,892)**	(2,193,312)
	Balance as at 31 December	**5,435,733,610**	4,794,468,337
22.3	**Expected Credit Loss Allowance**		
	Balance as at 1st January	**2,193,312**	7,786,091
	Net Charge (Reversal) for the year	**(432,420)**	(5,592,779)
	Balance as at 31 December	**1,760,892**	2,193,312

23 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31st December	2021	2020
	Rs.	Rs.
Unquoted Equity Securities **(Note 23.1)**	**2,289,919**	2,289,919
	2,289,919	2,289,919

23.1 Unquoted Equity Securities

	2021			2020		
As at 31st December	**No. of Shares/ Percentage**	**Cost of Investment**	**Market Value**	No. of Shares	Cost of Investment	Market Value
		Rs.	**Rs.**		Rs.	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

24 PROPERTY, PLANT AND EQUIPMENT

2021	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.	Rs.
Cost									
Opening balance as at 01 January 2021	635,090,898	-	710,527,368	1,340,256,705	409,400,481	5,156,066	393,628,535	819,424	3,494,879,478
Additions	65,792,724	-	68,789,187	33,912,730	-	711,727	33,486,823		202,693,190
Disposals	-	-	(13,464,028)	(16,876,877)	(21,646,441)		(715,537)		(52,702,882)
Written off	-	-	-	-	-	-	-		-
Transfers during the Year	-	-	-	(766,424)	-	-	-	(72,000)	(838,424)
Reclassification Adjustments	2,027,332	-	94,862	(66,999)	7,990	431,675	(2,695,098)		(200,238)
Closing balance as at 31 December 2021	**702,910,953**	**-**	**765,947,389**	**1,356,459,136**	**387,762,031**	**6,299,468**	**423,704,723**	**747,424**	**3,643,831,124**
(Less): Accumulated depreciation									
Opening balance as at 01 January 2021	184,965,594	-	574,829,342	1,066,545,951	404,587,270	-	293,412,666	-	2,524,340,823
Charge for the year	24,258,278	-	60,926,671	111,692,802	3,611,667	-	43,130,616	-	243,620,034
Disposals	-	-	(13,424,381)	(16,026,373)	(23,545,018)	-	(579,847)	-	(53,575,618)
Written off	-	-	-	-	-	-	-	-	-
Transfers during the Year	-	-	-	(1,134,048)	1,937,820	-	73,676	-	877,448
Reclassification Adjustments	503,091	-	93,287	(148,516)	7,990	-	(455,852)	-	(0)
Closing balance as at 31 December 2021	**209,726,962**	**-**	**622,424,920**	**1,160,929,816**	**386,599,729**	**-**	**335,581,260**		**2,715,262,686**
Net book value as at 31 December 2021	**493,183,991**	**-**	**143,522,470**	**195,529,320**	**1,162,302**	**6,299,468**	**88,123,463**	**747,424**	**928,568,438**

24 PROPERTY, PLANT AND EQUIPMENT (Contd…)

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.***
Cost									
Opening balance as at 01 January 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	21,034,964	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)
Write 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)
Closing balance as at 31 December 2020	635,090,898	-	710,527,368	1,340,256,705	409,400,481	5,156,066	393,628,535	819,424	3,494,879,478
(Less): Accumulated depreciation									
Opening balance as at 01 January 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	-	298,040,278
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
Closing balance as at 31 December 2020	184,965,594	-	574,829,342	1,066,545,951	404,587,270	-	293,412,666	-	2,524,340,823
Net book value as at 31 December 2020	450,125,304	-	135,698,027	273,710,755	4,813,211	5,156,066	100,215,869	819,424	970,538,655

24.1 Fully Depreciated Property, Plant and Equipment

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

As at 31 December	2021	2020
	Rs.	Rs.
Asset Class		
Building	**20,396,463**	3,562,414
Computer, Hardware	**470,021,543**	399,804,269
Office,Equipment,Furniture and Fittings	**774,199,583**	590,779,812
Motor Vehicles	**357,416,907**	366,060,714
Partition & Fittings	**191,097,754**	159,402,961
Software	**96,208,779**	111,460,789
	1,909,341,030	1,631,070,959

24.2 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.

24.3 Property, plant and equipment pledged as security for liabilities

No freehold property, plant and equipment have been pledged as security for any liability.

24.4 Compensation from third parties for items of property, plant and equipment

There were no compensation received/ receivable from third parties for items of property, plant and equipment which were impaired of given up.

24.5 Temporally idle property, plant and equipment

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

24.6 Freehold Lands and Buildings

The details of freehold land and buildings held by the Bank as at 31st December 2021 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
H/O - No 933, Kandy Rd, Wedamulla, Kelaniya	50.4	5,375	March 5, 2012	142,244,280	139,378,152	281,622,432	57,026,980	224,595,453
Central Province								
Matale -No 62, Main Street, Matale	4.8	2,280	December 26, 2014	-	11,915,631	11,915,631	4,178,632	7,736,999
Dambulla - No734, Anuradhapura Road, Dambulla	8.2	2,210	December 18, 2003	565,000	2,286,908	2,851,908	2,201,149	650,759
Wilgamuwa -Hettipola, Wilgamuwa	38.0	1,740	August 24, 2009	-	7,581,277	7,581,277	5,281,141	2,300,136
Agarapathana - No158, Hoolbrook, Agarapatana	10.8	1,598	August 17, 2012	540,000	720,000	1,260,000	708,000	552,000
Naula- 26,Dambulla Road,Naula	20.0	1,640	February 25, 1998	2,471,252	8,600,539	11,071,791	3,441,135	7,630,656
Laggala-New Town -Laggala	40.0	3,261		-	23,565,250	23,565,250	3,050,570	20,514,680
North Central Province						-		-
Mihinthale - Trincomalee Road, Mihinthale	20.0	6,359	30/Dec/05	0	8,859,427	8,859,427	7079371.34	1,780,055
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	March 19, 2013	-	16,192,223	16,192,223	7,286,500	8,905,723
Galenbindunuwewa - Pola Road, Galenbidunuwewa	70.0	1,687	March 14, 2013	-	5,820,073	5,820,073	2,515,428	3,304,644
Medirigiriya - Main Street, Madirigiriya	40.0	-	December 31, 2007	-	9,643,650	9,643,650	6,759,199	2,884,452
Siripura - New Town, Siripura	30.0	4,973	February 24, 2016	-	22,291,625	22,291,625	6,523,041	15,768,584
Thirappane - Kandy Road, Thirappane	65.4	8,030	December 8, 2016	379,869.25	46,150,602	46,530,472	7,657,740	38,872,732
No.343,Mosque Road,Stage 01,Anuradhapura					125,000	125,000	18,750	106,250
North Western Province						-		-
Mawathagama - Kandy Road, Mawathagama	21.5	-	March 3, 2016	10,801,311		10,801,311	-	10,801,311
P/O Kurunegala - No 155, Negombo Rd, Kurunegala	14.0	8,484	December 29, 2004	-	18,200,366	18,200,366	10,331,653	7,868,713
Polpithigama - Kurunegala Road,Polpitigama	20.0	2,784	December 30, 2014	-	16,782,785	16,782,785	5,686,191	11,096,594
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	December 30, 2014	-	25,188,128	25,188,128	8,699,441	16,488,687
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	March 25, 2003	-	5,792,157	5,792,157	3,510,813	2,281,345
Nattandiya - Marawila Road, Naththandiya	15.7	1,200	February 11, 2003	-	36,799,082	36,799,082	5,982,538	30,816,543
Puttlam - Kurunegala Road,Puttlam	51.0	1,250	June 26, 2006	-	3,802,742	3,802,742	1,969,120	1,833,623
Wariyapola-No 29/4,Adhikari Mawatha,Wariyapola.	10.0	6,208	November 12, 2013	-	35,609,963	35,609,963	10,112,316	25,497,647
Southern Province						-		-
Kekanadura - Weherahena Rd, Kekanadura	12.0	1,704	May 10, 2004	1,418,000	1,194,535	2,612,535	1,015,082	1,597,453
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	-	8,894,553	8,894,553	3,790,392	5,104,161
Katuwana - Uda Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001	1,320,000	7,406,958	8,726,958	6,294,223	2,432,735
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005	1,620,667	1,675,534	3,296,201	1,675,152	1,621,049
Uragasmanhandiya - Kosgoda Road,Uragasmanhandiya	20.0	1,940	April 10, 2012	-	13,354,618	13,354,618	6,494,369	6,860,249
Ambalantota - 139,Hambantota Road,Ambalantota	25.0	2,568	August 30, 2004	2,000,000	3,070,100	5,070,100	2,608,884	2,461,216
Agunakolapelessa,Ranna Road,Agunakolapelessa	12.0	2,371	August 27, 2001	-	3,470,348	3,470,348	2,526,266	944,082
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	3,873,608	2,761,108
No.01,Galwala Road,Hambantota	237.0	16,315		15,000,000	18,082,199	33,082,199	16,425,121	16,657,079
Uva Province								-
Girandurukotte - Development Centre,Girandurukotte	10.1	1,661	November 30, 2011	-	3,227,674.2	3,227,674	1,685,535	1,542,139
Monaragal D/O-Monaragala Road,Buttala.	34.0	1,706	October 22, 1999	-	3,162,263	3,162,263	2,718,623	443,640
Bandarawela Lease hold Premises	7.7		February 18, 2013	1,150,000	-	1,150,000	-	1,150,000
Sabaragamuwa Province						-		-
Balangoda - No17,Rest House Approach Road,Balangoda	20.0	-	February 18, 2013	6,679,574		6,679,574		6,679,574
Eastern Province						-		-
Swiss Village, Batticaloa,				173,370		173,370		173,370
Clock tower junction, front of bus stand, Ampara				468,550		468,550		468,550
Total				**188,581,873**	**514,329,080**	**702,910,953**	**209,726,962**	**493,183,991**

25 INTANGIBLE ASSETS

As at 31st December	2021 Rs.	2020 Rs.
Computer Software		
Cost		
Balance as at 1st January	**277,845,780**	276,312,857
Additions	**123,380,926**	1,532,923
Disposals	**(34,417,603)**	-
Balance as at 31st December	**366,809,102**	277,845,780
Accumulated Amortization		
Balance as at 1st January	**256,573,080**	230,956,513
Charge for the year	**30,772,231**	25,616,567
Disposals	**(34,224,989)**	-
Balance as at 31st December	**253,120,322**	256,573,080
Net book value	**113,688,780**	21,272,699

25.1 There were no restriction on the title of the intangible assets of the Bank as at the reporting date. Further, there were no items pledged as securities for liabilities.

26 LEASES

Leases as lessee

Bank has obtained certain branches and office premises under Lease. The leases generally run for a period of 05 years, with an option to renew the lease after that date.

26.1 Right of Use Assets

	2021		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Cost			
Balance as at 1 January 2021	**1,086,118,299**	**51,945,918**	**1,138,064,217**
Additions and Improvements	**152,709,208**	**-**	**152,709,208**
Balance as at 31 December 2021	**1,238,827,507**	**51,945,918**	**1,290,773,425**
Accumulated Amortization			
Balance as at 1 January 2021	**504,412,649**	**34,673,010**	**539,085,659**
Charge for the Period	**230,473,761**	**16,121,982**	**246,595,743**
Balance as at 31 December 2021	**734,886,410**	**50,794,992**	**785,681,402**
Net book Value as at 31 December 2021	**503,941,097**	**1,150,926**	**505,092,023**

	2020		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Cost			
Balance as at 1 January 2020	1,058,318,802	51,945,918	1,110,264,720
Opening balance modifications - Prepayments	(1,377,599)	-	(1,377,599)
Opening balance modifications - Buildings	(59,803,752)	-	(59,803,752)
Additions and Improvements	88,980,848	-	88,980,848
Balance as at 31 December 2020	**1,086,118,299**	**51,945,918**	**1,138,064,217**
Accumulated Amortization			
Balance as at 1 January 2020	237,745,060	17,336,505	255,081,565
Charge for the Period	266,667,589	17,336,505	284,004,094
Balance as at 31 December 2020	**504,412,649**	**34,673,010**	**539,085,659**
Net book Value as at 31 December 2020	**581,705,650**	**17,272,908**	**598,978,557**

26.2 Lease Liabilities

	2021		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 1 January 2021	**692,975,425**	**19,465,192**	**712,440,617**
Additions	**128,012,241**	**-**	**128,012,241**
Accretion of Interest	**229,044,665**	**753,433**	**229,798,098**
Payments	**(307,660,664)**	**(18,861,770)**	**(326,522,434)**
Balance as at 31 December 2021	**742,371,668**	**1,356,855**	**743,728,523**

	2020		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 1 January 2020	855,733,295	36,380,307	892,113,602
Opening balance modifications - Buildings	(60,277,028)	-	(60,277,028)
Additions	73,577,723	-	73,577,723
Accretion of Interest	121,894,729	3,361,525	125,256,254
Payments	(297,953,294)	(20,276,640)	(318,229,934)
Balance as at 31 December 2020	**692,975,425**	**19,465,192**	**712,440,617**

26.2.1 Maturity Analysis of Lease Liability - Contractual Undiscounted Cashflows

	2021 Rs.	2020 Rs.
Less than one year	**270,606,187**	283,100,543
One to five years	**564,054,752**	537,698,044
	834,660,939	820,798,587

26.3 Amounts Recognised in Profit or Loss

	2021	2020
Interest on lease liability	**229,798,098**	125,256,254
Amortisation charge for the year	**246,595,743**	284,004,094
	476,393,841	409,260,348

26.4 Amounts Recognised in Statement of Cash Flows

	2021	2020
Lease rental payments	**326,522,434**	318,229,934
	326,522,434	318,229,934

27 DEFERRED TAX ASSETS/ LIABILITIES

As at 31st December	2021 Rs.	2020 Rs.
Deferred tax asset	**(1,464,843,345)**	(1,130,158,716)
Deferred tax liability	**201,048,274**	226,437,747
Net deferred tax (asset)/ liability	**(1,263,795,071)**	(903,720,969)

27.1 Amounts recognized in the Income Statement

	2021	2020
Recognized in profit or loss	**(351,453,892)**	(126,865,320)
Recognized in other comprehensive income	**(8,620,208)**	(80,539,165)

27.2 Movement in deferred tax balances

2021	**Net Balance as at 01st January 2021**	**Recognized in profit or loss**	**Recognized in OCI**	**Net Balance at 31st December 2021**	**Deferred Tax Asset**	**Deferred Tax Liability**
Property, Plant and Equipment	**121,487,447**	**(30,021,937)**	**-**	**91,465,510**	**-**	**91,465,510**
Leases	**104,950,300**	**4,632,464**	**-**	**109,582,764**	**-**	**109,582,764**
Allowance for loan losses	**(440,421,507)**	**(257,301,162)**	**-**	**(697,722,669)**	**(697,722,669)**	**-**
Employee Benefits	**(667,889,910)**	**(54,641,419)**	**(8,620,208)**	**(731,151,537)**	**(731,151,537)**	**-**
Operating Lease	**(21,847,299)**	**(14,121,838)**	**-**	**(35,969,138)**	**(35,969,138)**	**-**
	(903,720,969)	**(351,453,892)**	**(8,620,208)**	**(1,263,795,069)**	**(1,464,843,343)**	**201,048,274**

2020	Net Balance as at 01st January 2020	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2020	Deferred Tax Asset	Deferred Tax Liability
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)	-
	(696,316,484)	(126,865,320)	(80,539,165)	(903,720,969)	(1,130,158,716)	226,437,747

28 OTHER ASSETS

As at 31st December	2021 Rs.	2020 Rs.
Cost		
Financial Assets		
Receivables	**3,559,214,197**	1,494,642,813
Deposits and Advances	**34,738,696**	40,153,251
Sundry debtors	**61,277**	50,616,802
Others	**127,627,766**	203,221,963
	3,721,641,936	1,788,634,829
Non Financial Assets		
Prepayment	**76,407,532**	90,467,723
Others	**1,105,926,405**	969,862,322
Tax Receivables	**3,084,424**	3,156,681
Less: Expected Credit Loss Allowance **(Note 28.1)**	**-**	(91,534,986)
	1,185,418,361	971,951,741
Total other assets	**4,907,060,297**	2,760,586,570

28.1 Expected Credit Loss Allowance

	2021	2020
Balance as at 01 January	**91,534,986**	87,758,000
Net Charge/ (reversal) for the year	**(3,776,986)**	3,776,986
Transfer to Contingency Provision for LDB	**(87,758,000)**	-
Balance as at 31 December	**-**	91,534,986

29 DUE TO BANKS

	2021 Rs.	2020 Rs.
Borrowings	**15,726,229,460**	10,918,815,620
Leasing **(Note 29.1)**	**96,000**	90,547
Refinance	**13,774,611,083**	10,877,773,183
Total due to banks	**29,500,936,543**	21,796,679,350

29.1 Maturity of the leasing

As at 31st December	2021 Rs.	2020 Rs.
Not later than 1 year	**96,000**	90,547
	96,000	90,547
Less - Interest in suspense	**-**	-
Total	**96,000**	90,547

30 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO OTHER CUSTOMERS

	2021 Rs.	2020 Rs.
Due to other customers	**187,752,465,256**	172,882,632,278
Total financial liabilities at amortised cost - due to other customers	**187,752,465,256**	172,882,632,278

30.1 Analysis of financial liabilities at amortised cost - due to other customers

	2021 Rs.	2020 Rs.
30.1.1 By product		
Savings deposits	**46,993,998,454**	40,988,362,809
Long term savings	**25,165,494,768**	24,680,930,633
Fixed deposits	**115,592,972,034**	107,213,338,836
Total financial liabilities at amortised cost	**187,752,465,256**	172,882,632,278
30.1.2 By currency		
Sri Lankan rupee	**187,752,465,256**	172,882,632,278
Total financial liabilities at amortised cost	**187,752,465,256**	172,882,632,278
30.1.3 By maturity		
Due within one year	**127,934,846,256**	114,598,416,075
Due after one year	**59,817,618,999**	58,284,216,203
Total financial liabilities at amortised cost	**187,752,465,256**	172,882,632,278

31 DEBT SECURITIES ISSUED

	2021 Rs.	2020 Rs.
Redeemable debentures **(Note 31.1)**	**2,000,000,000**	2,000,000,000
Total debt securities issued	**2,000,000,000**	2,000,000,000

31.1 Redeemable debentures

	2021 Rs.	2020 Rs.
Opening balance as at 01 January	**2,000,000,000**	4,707,852,534
Debenture Redeemed	**-**	(2,500,000,000)
Interest Payable	**311,500,000**	-
Interest Paid	**(311,500,000)**	(207,852,534)
Closing balance as at 31 December	**2,000,000,000**	2,000,000,000

Details of debenture issued

	Note	No. of Debentures	Face Value Rs.	Amortised Cost 2021 Rs.	Amortised Cost 2020 Rs.
Debentures issued in 2017	31.1.1	20,000,000	2,000,000,000	**2,000,000,000**	2,000,000,000
Total debentures issued by the Bank		**20,000,000**	**2,000,000,000**	**2,000,000,000**	2,000,000,000

31.1.1 Debentures 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 2021 (Rs.)	Amortized cost 2020 (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
	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000			

31.2 Debentures due

	2021 Face Value Rs.	2021 Amortised Cost Rs.	2020 Face Value Rs.	2020 Amortised Cost Rs.
Due within one year	**2,000,000,000**	**2,000,000,000**	2,500,000,000	2,707,852,534
Due after one year	**-**	**-**	2,000,000,000	2,000,000,000
	2,000,000,000	**2,000,000,000**	4,500,000,000	4,707,852,534

32 CURRENT TAX LIABILITIES

	2021 Rs.	2020 Rs.
Balance as at 1st January	**378,203,555**	448,881,448
Current tax based on profit for the year **(Note 15)**	**752,050,328**	723,625,797
Under provision in respect of previous years **(Note 15)**	**68,605,453**	12,651,872
Payment of tax	**(695,837,450)**	(806,955,563)
Balance as at 31 December	**503,021,886**	378,203,555

33 OTHER LIABILITIES

	2021 Rs.	2020 Rs.
Financial Liabilities		
Sundry creditors	**593,559,411**	218,029,380
Other payables	**4,177,558,407**	3,182,069,805
Inter bank transaction in transit	**11,434**	62,878,750
Operating Lease Liability **(Note 26.2)**	**743,728,523**	712,440,617
	5,514,857,775	4,175,418,552
Non Financial Liabilities		
Other payables	**2,175,135,031**	1,976,982,928
Impairment provision for expected credit losses - credit related commitment and contingencies	**3,308,006**	2,042,296
	2,178,443,036	1,979,025,224
Total	**7,693,300,812**	6,154,443,776

34 RETIREMENT BENEFIT OBLIGATION

As at 31 December	**2021**	2020
	Rs.	Rs.
Retirement Benefit Obligation **(Note 34.1)**	**3,046,464,739**	2,782,874,624
	3,046,464,739	2,782,874,624

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

As at 31 December	**2021**	2020
	Rs.	Rs.
Opening balance as at 01 January	**2,782,874,624**	2,236,115,128
Provision made during the year **(Note 34.2)**	**379,779,626**	378,715,968
Payable for resigned employees	**(17,177,614)**	(25,496,268)
Net Actuarial (Gain)/Loss on obligation **(Note 34.3)**	**35,917,534**	335,579,854
	3,181,394,170	2,924,914,682
Benefits paid by the Bank	**(134,929,431)**	(142,040,058)
Balance as at 31 December	**3,046,464,739**	2,782,874,624

34.2 Amount Recognised in Statement of Profit or Loss

As at 31st December	**2021**	2020
	Rs.	Rs.
Current Service cost	**162,715,405**	141,687,765
Interest Cost	**217,064,221**	237,028,204
Total amount recognised in Statement of Profit or Loss	**379,779,626**	378,715,968

34.3 Amount Recognised in Statement of Other Comprehensive Income

As at 31 December	**2021**	2020
	Rs.	Rs.
Net Actuarial (Gain)/Loss on obligation	**35,917,534**	335,579,854
Total amount recognised in Other Comprehensive Income	**35,917,534**	335,579,854

34.4 An actuarial valuation of the gratuity fund was carried out as at 31st December 2021 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).

Actuarial assumptions	**2021**	2020
Discount rate as at 31st December	**11.50%**	7.80%
Future salary increment rate	**2022 - 21% , 2023, 2024, 2026, 2027 & 2029 - 8%,2025 & 2028 - 20%**	8% (Every three years with the next increment due on 01st January 2021)
Mortality	**A1967/70 Mortality Table**	A1967/70 Mortality Table
Retirement age	**60 Years**	60 Years

34.5 Sensitivity of Assumptions Used in the Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the total comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on to total comprehensive income and employment benefit obligation for the year.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	2021		2020	
		Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year	Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability	Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year	Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability
		Rs.	Rs.	Rs.	Rs.
+1%	-	224,678,599	(224,678,599)	212,277,839	(212,277,839)
-1%	-	(259,968,345)	259,968,345	(245,594,943)	245,594,943
-	+1%	(259,217,411)	259,217,411	(246,581,281)	246,581,281
-	-1%	227,994,528	(227,994,528)	217,019,884	(217,019,884)

35 STATED CAPITAL

	2021	2020
	Rs.	Rs.
Ordinary shares		
Balance as at 1st January	8,047,229,930	8,047,229,930
Issue of shares	-	-
Balance as at 31st December	8,047,229,930	8,047,229,930

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the bank.

36 STATUTORY RESERVE FUND

	2021	2020
	Rs.	Rs.
Balance as at 1st January	762,462,998	742,261,195
Transfer during the period	15,315,136	20,201,803
Balance as at 31st December	777,778,133	762,462,998

37 OTHER RESERVES

Balance as at 31 December 2021	**Opening balance as at 01 January 2021**	**Movement/ transfers**	**Closing balance as at 31 December 2021**
	Rs.	**Rs.**	**Rs.**
General reserve Fund	3,238,451,740	61,260,542	3,299,712,282
Special Reserve Fund	616,853,326	15,315,135	632,168,461
Total	3,855,305,066	76,575,677	3,931,880,743

Balance as at 31 December 2020	Opening balance as at 01 January 2020	Movement/ transfers	Closing balance as at 31 December 2020
	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
Total	3,754,296,053	101,009,013	3,855,305,066

38 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.

38.1 Key Management Personnel 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.

38.1.1 Key Management Personnel Compensation

Key management personnel compensation comprised the following;

	2021	2020
	Rs.	Rs.
Short term employment benefits	**138,863,934**	104,012,596
Post employment benefits	**-**	15,873,682
	138,863,934	119,886,279

38.1.2 Transactions, arrangements and agreements involving KMP and their Close Family Members (CFM)

The aggregate values of transactions and outstanding balances related to key management personnel were as follows;

	2021	2020
Items in the Statement of Financial Position	**Rs.**	Rs.
Assets		
Loans and receivables	**69,063,712**	69,074,995
	69,063,712	69,074,995
Liabilities		
Deposits	**113,343,587**	74,673,859
	113,343,587	74,673,859
Items in the Statement of Profit or Loss		
Interest income	**3,849,843**	2,950,858
Interest expenses	**4,494,112**	4,961,370
	8,343,955	7,912,228

38.1.2.1 Terms and conditions of the accommodation granted to KMPs and their CFMs

Type of the Loan	**Other Terms and Conditions**	**Balance as at 31.12.2021**	**Security Details 31.12.2021 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 of employees.	**22,525,008**	Property	**206,650,000**
Staff Vehicle Loans		**32,476,614**	Motor Vihicle	**98,208,912**
Cash Backed Loans		**3,703,273**	Fixed Deposit/ Savings Deposits	**14,255,943**
Consumptions and Other Loans		**10,358,817**		
		69,063,712		**319,114,854**

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 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		282,213,414

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

38.2 Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

In accordance with 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:

	2021	2020
	Rs.	Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	**184,086,623**	214,605,086
	184,086,623	214,605,086
Liabilities		
Deposits	**13,318,465,018**	16,683,794,371
	13,318,465,018	16,683,794,371
Items in the Statement of Profit or Loss		
Interest income	**10,505,819**	15,756,643
Interest expenses	**662,977,749**	1,927,228,758
	673,483,567	1,942,985,401

38.2.1 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)

38.3 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.

39 ASSETS PLEDGED AS SECURITY

The total financial assets recognized in the statement of financial position that had been pledged as collateral for liabilities as at 31 December 2021 and 2020 is shown in the following table:

2021	**Type of Facility**	**Amount of Facility Rs. Mn**	**Nature of Security**	**Value of Security Rs. Mn**	**Balance as at 31 December 2021 Rs. Mn**
1	**Over Draft - BOC**	**1,326**	**FD 80912939**	**685.299**	**-**
			FD 74353124	**280.891**	
			FD 82300125	**242.000**	
			FD 74817306	**343.255**	
			FD 74588793	**320.040**	
			FD 74619066	**317.286**	
2	**Over Draft - PB**	**200**	**FD- 014-60-01-00015762-6**	**501.926**	**-**

2020	Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31 December 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- 014-60-01-0001	458.271	-

40 CONTINGENT LIABILITIES AND COMMITMENTS

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

These contingencies and commitments are quantifies below:

As at 31 December	**2021**	2020
		Rs.
Guarantees and performance bonds	**177,766,966**	138,447,168
Other contingent items	**51,429,192**	65,929,841
Less : Impairment for expected credit losses-Guarantees	**(3,308,006)**	(2,042,296)
Total	**225,888,152**	202,334,713

40.1 Analysis of Commitment and Contingency Exposure to Credit Risk

As at 31 December 2021	**Stage 1**	**Total**
	Rs.	**Rs.**
Guarantees and performance bonds	**177,766,966**	**177,766,966**
Other contingent items	**51,429,192**	**51,429,192**
Expected Credit Loss Allowance **(Note 40.1.1)**	**(3,308,006)**	**(3,308,006)**
	225,888,152	**225,888,152**

As at 31 December 2020	**Stage 1**	Total
	Rs.	Rs.
Guarantees and performance bonds	**138,447,168**	138,447,168
Other contingent items	**65,929,841**	65,929,841
Expected Credit Loss Allowance **(Note 40.1.1)**	**(2,042,296)**	(2,042,296)
	202,334,713	202,334,713

40.1.1 Expected Credit Loss Allowance

	2021	2020
	Rs.	Rs.
Balance as at 1st January	**2,042,296**	2,189,819
Net Charge for the year	**1,265,710**	(147,522)
Balance as at 31st December	**3,308,006**	2,042,296

41 LITIGATIONS 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 31/12/2021, the Bank has 44 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.

42 EVENTS AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements except the matter which disclosed under the Note 15.5.

43 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 Sanwardana Bank. The negative financial implications have been felt by the Industry including Pradeshiya Sanwardana Bank in year 2021.

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 2021 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 be used to estimate ECL during the course of the financial year 2021. The bank has computed ECL based on the available information as at 31 December 2021.

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.

44 CURRENT VS NON CURRENT ANALYSIS

As at 31 December 2021

Assets	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Cash and cash equivalent	1,486,878,989	-	1,486,878,989
Placements with banks	6,596,072,932	-	6,596,072,932
Equity Instruments at fair value through profit or loss	188,140	-	188,140
Financial assets at amortised cost-Loans and receivables from other customers	62,634,410,988	112,595,255,668	175,229,666,656
Financial assets at amortised cost-Debt & other instruments	54,856,210,318	-	54,856,210,318
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property, plant and equipment	-	928,568,438	928,568,438
Intangible assets	-	113,688,780	113,688,780
Right of use assets	-	505,092,023	505,092,023
Deferred tax assets	-	1,263,795,071	1,263,795,071
Other assets	3,827,515,561	1,079,544,736	4,907,060,297
Total assets	129,401,276,928	116,488,234,634	245,889,511,562
Liabilities			
Due to banks	4,143,128,486	25,357,808,057	29,500,936,543
Due to other customers	127,934,846,256	59,817,618,999	187,752,465,256
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	503,021,886	-	503,021,886
Other liabilities	3,562,698,921	4,130,601,890	7,693,300,812
Retirement benefit obligation	193,769,265	2,852,695,474	3,046,464,739
Total liabilities	138,337,464,814	92,158,724,420	230,496,189,235
Maturity Gap	(8,936,187,887)	24,329,510,214	15,393,322,327
Cumulative Gap	(8,936,187,887)	15,393,322,328	-

As at 31 December 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, plant 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
Total assets	115,967,913,191	105,141,237,333	221,109,150,524
Liabilities			
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
Total liabilities	107,815,937,269	84,806,098,159	205,994,833,583
Maturity Gap	8,151,975,922	20,335,139,174	15,114,316,940
Cumulative Gap	8,151,975,922	28,487,115,096	-

45 FINANCIAL RISK MANAGEMENT

45.1 Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit Risk
- Liquidity risk
- Market risk
- Operational risk

45.1.1 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Banks' risk management framework. The Board discharges its governance responsibility through the Board Integrated Risk Management Committee and the Board Audit Committee . Board Integrated Risk Management Committee consists of non-executive members who report regularly to the Board of Directors on their activities. There are several executive management sub committees such as the Executive Management Committee, Asset and Liability Committee (ALCO), Executive Credit Management Committee and IT Steering Committee, which focus on specialised risk areas that support the Board Integrated Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Integrated Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures. The Board Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

45.1.2 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.

45.1.3 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).

45.1.4 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.

45.2 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets (FVTPL) is managed independently and information thereon is disclosed below. The market risk in respect of changes in fair value in trading assets (FVTPL) arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk, further details are provided in market risk section.

Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Board Credit Committee (Discontinued with effect from June 2021). Bank Credit Administration Unit reporting to the Executive Credit Management Committee through the Chief Risk Officer is responsible for management of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisatio structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee (Discontinued with effect from June 2021) or the Board of Directors as appropriate.

- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer.

• Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.

• Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

• Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

Exposure to Credit Risk

The table below set out information about credit quality of financial assets and allowance for impairment/ expected credit losses held by the Bank against those assets.

Credit Quality Analysis

The Bank's Delinquency status

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

As at December	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Rs.	**Rs.**	**Rs.**	**Rs.**	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised cost-Loans and receivables from other customers								
Grade 0 - 2 Performing Loans	157,928,510,574	14,241,187,466	306,097,259	172,475,795,299	119,285,034,714	20,078,064,947	14,731,124,424	154,094,224,085
Grade 3: NPA Special Mention	-	-	1,228,173,841	1,228,173,841	-	-	873,622,905	873,622,905
Grade 4: NPA Substandard	-	-	3,367,055,156	3,367,055,156	-	-	2,299,858,885	2,299,858,885
Grade 5: NPA Doubtful	-	-	2,223,011,575	2,223,011,575	-	-	1,905,298,067	1,905,298,067
Grade 6: NPA Loss	-	-	9,745,630,548	9,745,630,548	-	-	7,926,045,779	7,926,045,779
Total loans and receivables from other customers	157,928,510,574	14,241,187,466	16,869,968,380	189,039,666,420	119,285,034,714	20,078,064,947	27,735,950,061	167,099,049,722
Expected credit loss allowance	(2,530,819,723)	(3,038,214,893)	(7,370,100,371)	(12,939,134,987)	(1,680,593,572)	(1,263,209,626)	(6,734,872,826)	(9,678,676,023)
Net loans and receivables from other customers	155,397,690,851	11,202,972,573	9,499,868,009	176,100,531,433	117,604,441,142	18,814,855,321	21,001,077,235	157,420,373,698

Financial investments at amortised cost-Debt & other instruments								
Quoted debentures	623,946,610	-	-	623,946,610	1,025,565,069	-	-	1,025,565,069
Government debt securities-treasury bills & bonds	4,813,547,891	-	-	4,813,547,891	3,771,096,580	-	-	3,771,096,580
Investment in fixed deposits	49,420,476,709	-	-	49,420,476,709	42,167,885,800	-	-	42,167,885,800
Total debt and other instruments	54,857,971,211	-	-	54,857,971,211	46,964,547,449	-	-	46,964,547,449
Expected credit loss allowance	(1,760,892)	-	-	(1,760,892)	(2,193,312)	-	-	(2,193,312)
Net debt and other instruments	54,856,210,319	-	-	54,856,210,319	46,962,354,137	-	-	46,962,354,137
Placements with banks								
Money market placements	6,596,072,932	-	-	6,596,072,932	8,436,353,244	-	-	8,436,353,244
Total placements with banks	6,596,072,932	-	-	6,596,072,932	8,436,353,244	-	-	8,436,353,244
Expected credit loss allowance	-	-	-	-	-	-	-	-
Net placements with banks	6,596,072,932	-	-	6,596,072,932	8,436,353,244	-	-	8,436,353,244
Commitments and Contingencies *								
Bank Guarantee	177,766,966	-	-	177,766,966	138,447,168	-	-	138,447,168
Bills Send for Collection	51,429,192	-	-	51,429,192	65,929,841	-	-	65,929,841
Total commitments and contingencies	229,196,158	-	-	229,196,158	204,377,009	-	-	204,377,009
Expected credit loss allowance	(3,308,006)	-	-	(3,308,006)	(2,042,296)	-	-	(2,042,296)
Net commitments and contingencies	225,888,152	-	-	225,888,152	202,334,713	-	-	202,334,713

* 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.

45.2.1 Measurement of Expected Credit Losses (ECL)

Inputs, assumptions and techniques used for estimating impairment under SLFRS 9 is disclosed under Accounting Policies Note 5.1.2.5.

Significant increase in Credit Risk

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

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

Incorporation of Forward-Looking Information

The Bank incorporates forward looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk are GDP growth, unemployment rates, inflation, exchange rates and interest rates.

The Bank formulates multiple economic scenarios to reflect base case, best case and worst case.

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

An overview of the approach to estimating ECLs is set out in Note 2 Summary of significant accounting policies and in Note 2.1 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2021.

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.

As at 31 December

Key drivers	ECL Scenario	2022	2023	2024	2025	Subsequent Years
		%	%	%	%	
GDP growth %						
	Base Case	-1.5%	-1.5%	-1.5%	-1.5%	-3.6%
	Best Case	3.6%	4.2%	4.8%	5.4%	-3.6%
	Worse Case	-0.1%	0.7%	1.5%	2.2%	-3.6%
Inflation Rates %						
	Base Case	4.6%	7.0%	7.0%	7.0%	4.6%
	Best Case	6.7%	6.7%	6.6%	6.5%	4.6%

	Worse Case	7.2%	7.4%	7.5%	7.7%	4.6%
Interest Rate %						
	Base Case	5.5%	5.5%	5.5%	5.5%	5.7%
	Best Case	5.1%	5.1%	5.0%	4.9%	5.7%
	Worse Case	5.8%	6.0%	6.2%	6.5%	5.7%
Exchange rates (USD $ to LKR)						
	Base Case	211.44	224.80	238.99	254.09	186.40
	Best Case	199.40	199.93	200.45	200.98	186.40
	Worse Case	237.92	284.61	325.00	325.00	186.40
Unemployment rates %						
	Base Case	5.2%	5.2%	5.2%	5.2%	5.4%
	Best Case	5.1%	5.1%	5.1%	5.1%	5.4%
	Worse Case	5.2%	5.3%	5.3%	5.4%	5.4%

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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.

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.

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

Sector classification of loans
The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka.
Of the total sector classification, this report catogorised them in top major sectors, in accordence to the size of the portfolios.
The highest sector under this classification as per the banks closing books, 2021 is the Housing Loan followed by Refinance, Commercial, Agriculture, Pawning, Industrial, and Other Loans, Loans against deposits, Staff loans, Leasing, SME, Liya Isura Loans.

Sector wise portfolios	Rs.
Term Loan - Housing	47,074,634,104
Refinance	33,018,825,759
Term Loan - Commercial	27,245,140,292
Term Loan - Agriculture	23,569,333,294
Pawning	20,173,958,657
Term Loan - Industrial	18,431,628,533
Term Loan - Other	7,244,407,422
Loan Against Deposit	6,535,720,294
Staff	4,614,968,345
Leasing	969,406,200
SME	123,862,856
Liya Isura	37,780,664

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.

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 5mn of the total exposure.

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

• Customers below the Individually Significant threshhold of LKR 5mn.

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

• Product Type
• Interest Rate

45.2.2 Collateral held and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, inventories and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. 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 thirty one days or more beyond their contractual due date are 'past due'.

An estimate made at the time of borrowing of the fair value of collateral and other security enhancements held against loans and advances to customers is given below and the value of collateral has been restricted to the value of the loans outstanding balances.

As at 31 December	**2021**	2020
	Rs.	Rs.
Collateral Type		
Land & Buildings	28,440,620,295	23,499,745,872
Machinery	1,002,307,447	1,165,376,791
Motor Vehicles	2,003,005,196	2,001,070,541
Gold	20,172,426,918	15,432,027,358
Fixed Deposits	6,669,463,537	6,578,363,234
Personal Guarantees	117,077,766,283	113,686,168,356
Bank Guarantees	993,213	1,199,090
Others	13,673,083,531	4,735,098,480
	189,039,666,420	167,099,049,722

As at 31 December	**2021**		2020	
	Maximum Exposure to Credit Risk	**Exposure Net of Collateral**	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	Rs.	**Rs.**	Rs.	Rs.
Cash and cash equivalent	1,486,878,989	1,486,878,989	3,758,858,141	3,758,858,141
Placements with Banks	6,596,072,932	6,596,072,932	8,436,353,244	8,436,353,244
Equity Instruments at fair value through profit or loss	188,140	188,140	145,160	145,160
Financial assets at amortised cost-Loans and receivables from other customers	189,039,666,420	130,751,843,027	167,099,049,722	118,422,465,925
Financial investments at amortised cost-Debt & other instruments	54,856,210,318	54,856,186,484	46,962,354,137	46,962,354,137
Equity Instruments at fair value through profit or loss	2,289,919	2,289,919	2,289,919	2,289,919
Other assets	3,721,641,936	3,617,507,110	1,788,634,829	1,788,634,829

The table below sets out principal types of collateral and their approximate collateral percentages that are held against different types of financial assets.

Type of Credit Exposure	**Principal type of collateral held**	**Percentage of exposure that is subject to arrangement that requires collateralisation**	
		2021	2020
Loans and advances to retails customers			
Mortgage lending	Residential Property	**17%**	16%
Personal loans	Personal Guarantee/Commercial Property/Motor Vehicle/Equipment etc.	**62%**	68%
Credit cards	None	-	-
Loans and advances to corporate customers			
Finance leases	Property and equipment	-	-
Other	Commercial property, floating charges over corporate assets	-	-
Reverse sale and repurchase agreements	Marketable securities	-	-
Investment debt securities			
Debenture - DFCC		**82%**	100%
Debenture - Commercial Bank	None	**18%**	-

Details of financial and non-financial assets obtained by the Bank as at 31 December 2021 by taking possession of collateral held as security (foreclosed) against loans and advances as well as calls made on credit enhancements and held as at the year end are shown below.

As at 31 December	**Forced Sale Value of Foreclosed Collateral**	
Foreclosed Properties	**2021**	2020
	Rs.	Rs.
Balance as at 01 January	**165,450,000**	130,450,000
Additions during the year	**-**	35,000,000
Disposals during the year	-	-
Valuation changes	-	-
Balance as at 31 December	**165,450,000**	165,450,000

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner.

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.

As at 31 December	**2021**	2020
	Rs.	Rs.
LTV ratio		
Less than 50%	-	-
51-70%	28,440,620,295	23,499,745,872
71-90%	-	-
91-100%	-	-
More than 100%	-	-
Total	**28,440,620,295**	23,499,745,872

45.2.3 Concentration of Credit risk

The Bank monitors concentrations of credit risk by industry and by geographic location.

Concentrations of credit risk

An analysis of concentrations of credit risk for loans and advances, lending commitments, financial guarantees and investment securities is shown below.

	Loans and Advances to Customers		**Investment debt securities**		**Lending commitments and financial guarantees**	
	2021	2020	**2021**	2020	**2021**	2020
	Rs.	Rs.	**Rs.**	Rs.	**Rs.**	Rs.
Carrying amount	189,039,666,420	167,099,049,722	54,857,971,211	46,964,547,449	229,196,158	204,377,009
Amounts committed/ guaranteed						
Concentration by sector						
Corporate:						
Other	-	-	-	-	229,196,158	204,377,009
Government	-	-	4,813,547,891	3,771,096,580	-	-
Banks	-	-	50,044,423,320	43,193,450,869	-	-
Retail:						
Personal Guarantee	117,077,766,283	113,686,168,356	-	-	-	-
Mortgages	58,287,823,393	48,676,583,797	-	-	-	-
Unsecured lending	13,674,076,744	4,736,297,569	-	-	-	-
	189,039,666,420	167,099,049,722	54,857,971,211	46,964,547,449	229,196,158	204,377,009
	-				-	

45.3 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.

Management of Liquidity Risk

The Bank sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. the key elements of the Bank's liquidity strategy are as follows.

* Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
* Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
* Monitoring liquid ratios, maturity mismatches, behavioral characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
* Carrying out stress testing of the Bank's liquidity position.

The most important of these is to maintain the minimum 20% liquid assets ratio to meet the regulatory requirement. Liquid assets consist of cash, short–term bank deposits and liquid debt securities available for immediate sale.

45.3.1 Exposure to Liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to deposits from customers and other liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and investment for which there is an active and liquid market. A similar calculation is used to measure the Bank’s compliance with the liquidity limit established by the, Central Bank of Sri Lanka. Details of the reported Bank ratio of net liquid assets to liabilities from customers at the reporting date and during the year were as follows:

	2021	2020
	DBU %	DBU %
At 31 December	26.18%	29.30%
Average for the year	27.64%	30.17%
Maximum for the year	28.46%	31.64%
Minimum for the year	26.18%	26.62%

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020, due to the COVID- 19 pandemic situation licensed banks are permitted to consider the following assets as liquid assets in the computation of the Statutory Liquid Assets Ratio until 30 June 2021.

• Interest subsidy receivable on Senior Citizens Special Deposit Scheme.
• Exposures to State Owned Entities guaranteed by the Government of Sri Lanka and classified in Stage 1 under SLFRS 9 Financial Instruments for financial reporting purposes with maturity not exceeding one year with hair-cut of 10%.
• Fixed Deposits held by licensed banks in other licensed banks;
    (a) where remaining period to maturity exceeds 1 year but is less than or equal to 2 years, with hair-cut of 20%,
    (b) if the remaining period to maturity exceeds 2 years but is less than or equal to 3 years, with hair-cut of 30%.
• Loans secured by deposits under lien equivalent to 20% of the deposits.
• Receivables from Employees Provident Fund (EPF) in settlement of loans.

However, due to the strong liquidity position of the Bank, there was no much impact to the Bank.

45.3.2 Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial liabilities as at 31 December 2021. 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.

As at 31 December 2021	Carrying Value	Total	Less than 3 months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Non - Derivative Liabilities							
Due to banks	**29,500,936,543**	**33,271,523,388**	**1,458,704,149**	**3,466,762,024**	**15,825,578,727**	**50,147,714**	**12,470,330,773**
Due to other customers	**187,752,465,256**	**192,354,798,672**	**48,125,528,994**	**84,078,496,904**	**12,483,089,634**	**15,917,855,300**	**31,749,827,841**
Debt issued and other borrowed funds	**2,000,000,000**	**2,076,176,663**	**2,076,176,663**	**-**	**-**	**-**	**-**
Other liabilities	**7,693,300,812**	**7,693,300,812**	**1,497,536,500**	**2,065,274,787**	**1,844,186,327**	**992,306,358**	**1,293,996,840**
Total Non - Derivative Liabilities	**226,946,702,610**	**235,395,799,534**	**53,157,946,306**	**89,610,533,715**	**30,152,854,688**	**16,960,309,372**	**45,514,155,454**

As at 31 December 2020	Carrying Value	Total	Less than 3 months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Non - Derivative Liabilities							
Due to banks	21,796,679,350	23,576,993,879	968,288,106	3,399,689,205	9,065,477,173	3,344,864,864	6,798,674,532
Due to other customers	172,882,632,278	177,114,072,929	43,812,101,922	74,654,617,236	11,828,465,103	15,988,292,852	30,830,595,817
Debt issued and other borrowed funds	2,000,000,000	2,387,676,663	-	-	2,387,676,663	-	-
Other liabilities	6,154,443,776	6,154,443,776	977,558,122	886,015,662	952,551,551	968,020,912	2,370,297,528
Total Non - Derivative Liabilities	202,833,755,404	209,233,187,248	45,757,948,151	78,940,322,103	24,234,170,490	20,301,178,628	39,999,567,876

45.3.3 Contractual Maturities of Commitments and Contingencies

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

As at 31 December 2021 **Contingent Liabilities**	**On Demand** **Rs.**	**Less than 3 Months** **Rs.**	**3 to 12 Months** **Rs.**	**1 to 5 Years** **Rs.**	**Over 5 Years** **Rs.**	**Total** **Rs.**
Bank guarantee (without impairment)		687,730	164,137,728	12,941,508	-	177,766,966
Other Contingent items-Bills sent for collection	51,429,192	-	-	-	-	51,429,192
Total Contingent Liabilities	**51,429,192**	**687,730**	**164,137,728**	**12,941,508**	**-**	**229,196,158**

As at 31 December 2020 **Contingent Liabilities**	**On Demand** **Rs.**	**Less than 3 Months** **Rs.**	**3 to 12 Months** **Rs.**	**1 to 5 Years** **Rs.**	**Over 5 Years** **Rs.**	**Total** **Rs.**
Bank guarantee (without impairment)	-	16,750,000	116,601,668	5,095,500	-	138,447,168
Other Contingent items-Bills sent for collection	65,929,841	-	-	-	-	65,929,841
Total Contingent Liabilities	**65,929,841**	**16,750,000**	**116,601,668**	**5,095,500**	**-**	**204,377,009**

45.3.4 Liquidity Reserve

The table below sets out the components of Bank's liquid assets that are held for the liquidity purpose.

	2021	
	Carrying Amount	**Fair Value**
Cash and Cash equivalents	**1,486,878,989**	**1,482,282,740**
Placements with banks	**2,126,552,877**	**2,126,552,877**
Repo	**4,469,520,055**	**4,469,520,055**
Fixed Deposits	**49,420,476,709**	**49,420,476,709**
	57,503,428,630	**57,498,832,381**

* The carrying amounts approximate their fair values as they are short term in nature (less than twelve months).

45.3.5 Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) as defined by the regulator is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 day period. The ratio is defined as the amount of High Quality Liquid Assets (HQLA) that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.

The LCR complements the Bank's stress testing framework. By maintaining a ratio in excess of minimum regulatory requirements, the LCR seeks to ensure that the Bank holds adequate liquidity resources to mitigate a short-term liquidity stress.

Commencing from 1 April 2015, all licensed specialised banks maintained Liquidity Coverage Ratios (LCR) as prescribed by CBSL in respect of Rupee Liquidity Minimum Requirement for local currency operations and All Currency Liquidity Minimum Requirement for the overall operations effective from 1 January 2019 onwards 100%.

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020 due to the COVID- 19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 30 June 2021 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - effective from

1 July 2021	**May 2020 to 30 June 2021**
100	90

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:	**2021**	2020
Rupee Liquidity Requirement for Local Currency Operations	**174**	146

45.3.6 Statutory Liquid Assets Ratio

For the month of December 2021	**26.18%**
For the month of December 2020	29.30%

45.3.7 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 2021	**93.33%**
As at 31st December 2020	90.64%

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2021 and 31.12.2020.

	2021				2020			
	Encumbered		**Unencumbered**		Encumbered		Unencumbered	
	Pledged as collateral	**Other**	**Other**	**Total**	Pledged as collateral	Other	Other	Total
Cash and cash equivalent	**-**	**-**	**1,486,878,989**	**1,486,878,989**	-	-	3,758,858,141	3,758,858,141
Placements with banks	**-**	**-**	**6,596,072,932**	**6,596,072,932**	-	-	8,436,353,244	8,436,353,244
Equity Instruments at fair value through profit or loss	**-**	**-**	**188,140**	**188,140**	-	-	145,160	145,160
Financial assets at amortised cost-Loans and receivables from other customers	**-**	**-**	**175,229,666,656**	**175,229,666,656**	-	-	156,694,052,473	156,694,052,473
Financial assets at amortised cost-Debt & other instruments	**2,690,695,651**	**-**	**52,165,490,833**	**54,856,186,484**	2,492,634,173	-	44,469,719,964	46,962,354,137
Equity Instruments at fair value through other comprehensive income	**-**	**-**	**2,289,919**	**2,289,919**	-	-	2,289,919	2,289,919
Other assets	**-**	**-**	**4,907,060,297**	**4,907,060,297**	-	-	2,760,586,570	2,760,586,570
Total	**2,690,695,651**	**-**	**240,387,647,766**	**243,078,343,416**	2,492,634,173	-	216,122,005,471	218,614,639,644

45.4 Market Risk

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

		Market risk measure	
As at 31st December 2021	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and cash equivalent	1,486,878,989	-	1,486,878,989
Placements with banks	6,596,072,932	-	6,596,072,932
Equity Instruments at fair value through profit or loss	188,140	188,140	-
Financial investments at amortised cost-Debt & other instruments	54,856,210,318	-	54,856,210,318
Financial assets at amortised cost-Loans and receivables from other customers	175,229,666,656	-	175,229,666,656
Equity Instruments at fair value through other comprehensive income	2,289,919	-	2,289,919
Other assets	3,721,641,936	-	3,721,641,936
Liabilities subject to Market risk			
Due to banks	29,500,936,543	-	29,500,936,543
Due to other customers	187,752,465,256	-	187,752,465,256
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	503,021,886	-	503,021,886
Other liabilities	5,514,857,775	-	5,514,857,775

		Market risk measure	
As at 31st December 2020	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
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 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 customers	156,694,052,473	-	156,694,052,473
Equity Instruments at fair value through other comprehensive income	2,289,919	-	2,289,919
Other assets	1,788,634,829	-	1,788,634,829
Liabilities subject to Market risk			
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

Management of Market Risk

Market risk management reporting creates transparency on the risk profile and facilitates the understanding of core market risk drivers to all levels of the Bank. The Management and Board Committees receive regular reporting, as well as ad hoc reporting as required, on market risk, the impact on capital and earnings through stress testing. The Operation Risk Management Committee (ORMC) and Asset and Liability Committee (ALCO) receive risk information at a number of frequencies, including monthly and quarterly.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Bank’s Treasury Department, and include positions arising from market making and also held with a view to earn a profit of financial assets and liabilities that are managed on a fair value basis.

The Bank employs a range of tools to monitor and limit market risk exposures.

Non - Trading Market Risk

Non trading market risk arises primarily from outside the activities of our trading units, in our banking book and from certain off-balance sheet items. Significant market risk factors the Bank is exposed to and are overseen by risk management committees are:

- Interest rate risk (including risk from embedded optionality and changes in behavioural patterns for certain product types)
- Market risks from off-balance sheet items such as foreign exchange risk of the hedging instruments such as SWAPs.

45.4.1 Interest Rate Risk

Interest rate risk is the potential impact on the Bank’s earnings and net asset values due to changes in market interest rates. Interest rate risk arises when the Bank’s principal and interest cash flows (including final maturities), both on and off balance sheet, have mismatched re-pricing dates. The amount of risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. The Bank’s lending, funding, and investment activities give rise to interest rate risk.

Interest rate risk management is conducted within the context of a comprehensive business strategy. The bank has developed and implemented effective and comprehensive procedures to manage and control interest rate risk in accordance with the strategies in managing interest rate risk. These procedures are in accordance to the size and complexity of the Bank’s interest rate risk-taking activities.

The Bank manages interest rate risk through the re-pricing maturity mis-match gaps by using Funds Transfer Pricing (FTP) techniques to take advantage in optimal gains. Through the FTP; portfolios are hedged; through this approach the Bank ensures that interest rate risk between lending and funding in each time bucket remains low. The majority of the Bank’s interest rate risk, therefore, stems from the unhedged portion of assets and liabilities.

Typically interest rate risk is split into two components: traded interest rate risk and non-traded interest rate risk. While the traded interest rate risk is relevant to trading activities and its affects, the latter is often referred to as interest rate risk on the balance sheet or to the banking book and arises from the Bank’s core banking activities.

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book is the risk to both the Bank's capital and earnings, arising from movements in interest rates, which affect the banking book exposures. This includes maturity mis-matches of the interest bearing assets and liabilities which describes the impact of relative changes in interest rates for financial instruments that are priced using different interest rate curves.

Interest rate risk is also the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.
The interest rate position of the Bank is that the duration of the liabilities to some extent is lesser than the duration of the assets in the shorter tenors of the reprising profile. Given this mismatch, under normal circumstances increasing interest rates will have a negative impact on the interest income of the Bank. On the other hand, as liabilities re-price more quickly than assets, the average interest rates paid on liabilities would adapt more quickly to lower market interest rates. This would then support the Bank's net interest income.

During the current year as well as the preceding year banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2021, was affected due to uncertainty and the various policies and regulations which were put into place from time to time to mitigate the adverseness of the economic conditions.

In this sense the Bank manages the Interest Rate Risk in the Banking Book (IRRBB) exposures using both Earnings at Risk (EAR) and Economic Value of Equity (EVE) measures. The Treasury division is delegated to manage the interest rate risk centrally on an ongoing basis, where Risk Management Unit acts as the second line of defence on an independent oversight function.

Economic value based measures look at the change in economic value of banking book of assets, liabilities and off-balance sheet exposures resulting from interest rate movements, independent of the accounting treatment. Thereby the Bank measures the change in Economic Value of Equity (EVE) of the banking book under standard scenarios for the ICAPP process as defined by Basel Committee on Banking Supervision.

Earnings-based measures look at the expected change in Net Interest Income (NII), compared to some defined benchmark scenarios, over a defined time horizon resulting from interest rate movements. Thereby the Bank measures the sensitivity of the Bank's interest sensitive assets and liabilities to a parallel shift to various interest rate scenarios.

45.4.2 Maturity Gaps

The Management and Board defines the liquidity and funding risk strategy for the Bank, as well as the risk appetite, based on recommendations made by the Risk Committee. At least annually the Board Risk Management Committee reviews and approves the limits which are applied to the Bank to measure and control liquidity risk as well as our long-term funding plan.

While such risk monitoring is mainly based on the stock approach through ratios and risk levels approved as per the risk appetite of the Bank, another method of managing and monitoring liquidity risk is using the flow approach tools which is the popular maturity mis-match or Maturity Gap analysis.

A summary of the Bank's total assets and liabilities as at 31 December 2021, based on the remaining period at the reporting date to the respective Cash flow/ Maturity dates together with the maturity gaps are given below.

As at 31 December 2021	Carrying amount	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.
Interest Earning Assets					
Cash and balances with central bank	1,486,878,989	1,486,878,989	-	-	-
Placements with banks	6,596,072,932	6,596,072,932	-	-	-
Equity Instruments at fair value through profit or loss	188,140	188,140	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	189,039,666,420	18,110,092,805	49,460,589,634	87,271,577,867	34,197,406,113
Financial investments at amortised cost-Debt & other instruments	54,857,971,211	39,183,286,650	10,237,166,224	623,946,610	4,813,571,726
Financial assets-fair value through other comprehensive income	2,289,919	-	-	-	2,289,919
Total Assets	251,983,067,611	65,376,519,517	59,697,755,858	87,895,524,478	39,013,267,758
			-		
Interest Bearing Liabilities					
Due to banks	29,500,936,543	1,364,318,523	2,778,809,963	15,000,220,002	10,357,588,055
Due to other customers	187,752,465,256	47,613,449,121	80,321,397,135	28,159,887,937	31,657,731,062
Debt issued and other borrowed funds	2,000,000,000	2,000,000,000	-	-	-
Total Liabilities	219,253,401,799	50,977,767,644	83,100,207,098	43,160,107,939	42,015,319,117
Gaps	32,729,665,812	14,398,751,873	(23,402,451,240)	44,735,416,539	(3,002,051,359)

As at 31 December 2020	Carrying amount	Up to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years
	Rs.	Rs.	Rs.	Rs.	Rs.
Interest Earning Assets					
Cash and balances with central bank	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	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
Total Assets	215,854,053,074	62,053,478,042	47,741,257,180	75,675,485,513	30,383,832,339
Interest Bearing Liabilities					
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	-
Total Liabilities	196,679,311,628	44,401,549,992	73,613,857,544	40,447,614,979	38,216,289,112
Gaps	19,174,741,446	17,651,928,050	(25,872,600,364)	35,227,870,534	(7,832,456,775)

Interest Rate Benchmark Reforms

Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global as well as local financial markets. A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives globally.

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Bank through ALCO intends to manage its transition to alternative rates from the use of IBOR's. The contracts which have fallen due since end 2021 is re-priced at alternate rates mostly based on fixed pricing, the five US dollar LIBOR settings which will continue to be calculated using panel bank submissions until mid-2023, is used if required to re-price longer tenor advances which have frequent re-pricing dates. However, using these LIBOR's for new business is restricted from end-2021.

Going forward, RMU as a risk management functionality, will evaluate the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR. These findings will be reported to ALCO and Treasury to support the management of interest rate risk and works closely to identify operational and regulatory risks arising from these IBOR reforms and how to manage communication about IBOR reform with counterparties. These findings will be reported to BIRMC quarterly and will collaborate with other business functions as needed.

45.4.3 Exposure to Other Market Risks

Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. 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.

During the year, the banking sector experienced uncertainty in market situations due to the lack of foreign currency liquidity especially the US dollars. This mostly led to the banking industry being unable to meet the expected levels in liability conversion transactions especially trade related transactions. The market also experienced a drop in asset conversion transaction such as the inward remittance and export bills. This situation led to depreciation of USD/ LKR rates which was mostly a controlled exchange rate which traded around 200 to 203 levels.

The Bank ensures all market risk measures are adhered as laid down in the latest directions published by the Central Bank as well as according to best market practices followed locally and globally.

Given below are the foreign currency exposures and their rupee equivalent in the major currencies, in which the Bank trades in.

	In Original Foreign Currency		**Functional Currency of the Bank**	
As at 31 December	**2021**	2020	**2021**	2020
	USD	USD	**Rs.**	Rs.
Net Foreign Currency Exposure				
Financial assets denominated in foreign currency	53,803,708	36,495,795	10,801,094,369	6,811,940,226
Financial liabilities denominated in foreign currency	53,658,862	39,502,035	10,772,016,498	7,391,266,209

An impact analysis of the foreign currency Net Open Position (NOP) was carried out applying shock levels of 5%, 10% and 15%, for depreciation on the current exchange rate and the impact on the overall foreign currency NOP (in USD) and the impact on Income Statement is shown in the table below.

As at 31 December	**2021**		2020	
	USD	**Rs.**	USD	Rs.
NOP	144,846	29,077,872	(3,006,239)	(579,325,982)
At Shocks Level of	**Revised Rupee position**	**Effect on income statement**	Revised Rupee position	Effect on income statement
5%	30,531,766	1,453,894	(608,292,282)	(28,966,299)
10%	31,985,659	2,907,787	(637,258,581)	(57,932,598)
15%	33,439,553	4,361,681	(666,224,880)	(86,898,897)

45.5 Operational Risk

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

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

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

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

46 CAPITAL MANAGEMENT

46.1 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 Bank 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.

Capital Management

Capital Adequacy is a measure of a bank's ability to withstand the associated risks of its business. Regulators find it necessary that every bank holds adequate capital to absorb unexpected losses as a going concern, while they price their products and services to take care of expected risks. Capital Adequacy Ratio (CAR) is measured under Basel II till 30 June 2017 and thereafter Basel-III and takes into account the Credit, Market and Operations risks. Keeping with the international standards of Basel Committee on Banking Regulations and Supervisory Practices, Sri Lanka has been following Basel III CAR calculation from 1 July 2017.

46.2 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.

46.3 Available Capital

Basel III accord recognises three capital elements, namely CET 1 Capital, Additional Tier1 Capital and Tier 2 capital.

CET 1 capital includes equity capital, reserve fund, published retained earnings (accumulated retained losses), general and other reserves, and unpublished current year’s profit/ (losses) and gains reflected in OCI. Goodwill (net), other intangible assets, revaluation losses of PPE, deferred tax assets, cash flow hedge reserve, shortfall of the cumulative impairment to specific provisions, defined benefit pension fund assets, investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at CET 1 capital.

Additional Tier 1 capital includes qualifying instruments as per the regulatory directions. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Additional Tier I capital.

Tier 2 capital includes qualifying tier 2 capital instruments, revaluation gains, and general provisions etc. Investments in own shares, investments in the capital of banking and financial institutions and other adjustments as per the regulatory directions are deducted as applicable in arriving at Tier 2 capital.

As per the Banking Act Direction No 01 of 2016 dated 29 December 2016 on Capital Requirements under BASEL III which was effective from 1 July 2017 and the amendments thereto under Directions No. 11 of 2019 dated 20 December 2019, the minimum required capital ratios to be maintained by the Bank are as follows.

• Every licensed specialised bank shall maintain, at all times, the minimum capital ratios prescribed in the table below and shall ensure compliance with Schedule I to the Banking Act Directions No 01 of 2016 on Capital Requirements under Basel III for licensed banks.

• Licensed specialised banks which are determined as Domestic Systemically Important Banks (D-SIBs) from time to time shall maintain Higher Loss Absorbency (HLA) requirements as specified by the Monetary Board in the form of Common Equity Tier 1(CET1), as given in the table below.

Components of Capital	**Capital Adequacy Ratio to be maintained by Licensed Banks**
Common Equity Tier 1 including Capital Conservation Buffer	7.50%
Total Tier 1 including Capital Conservation Buffer	8.50%
Total Capital Ratio including Capital Conservation Buffer	12.50%

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in March 2020, due to the COVID-19 pandemic situation Domestic Systemically Important Banks (D-SIBs) and non D-SIBs are permitted to draw down their Capital Conservation Buffers by 100bps and 50bps out of the total of 250bps, respectively.

The Bank Capital Adequacy (Basel III) details as at 31 December are given below.

	Basel III	
As at December	**2021**	2020
	Rs.	Rs.
Assets		
Total Risk Weighted Amount (including Off- Balance Sheet Items)	153,296,177,322	137,246,614,104
Risk Weighted amount of Off-Balance Sheet Exposure	35,553,393	20,767,075
Capital		
Common Equity Tier 1Capital	14,189,229,195	14,189,250,693
Total Tier 1 Capital	14,189,229,195	14,189,250,693
Total Capital	20,168,998,565	20,502,228,949
Capital Adequacy Ratios		
Common Equity Tier 1 Capital Ratio (%)	8.72%	10.34%
Tier 1 Capital Ratio (%)	8.72%	10.34%
Total Capital Ratio (%)	14.27%	14.94%

47 FAIR VALUE OF FINANCIAL INSTRUMENTS

47.1 Determining Fair Values

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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 in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable fro market data.

Level 3 – Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

47.2 Valuation Models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

47.3 Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an oversight by the Market Risk function, which is independent of front office management. Market Risk has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

* Verification of observable pricing;
* Re-performance of model valuations;
* A review and approval process for new models and changes to models involving both product control and group market risk;
* Quarterly calibration and back-testing of models against observed market transactions;
* Analysis and investigation of significant daily valuation movements; and
* Review of significant unobservable inputs, valuation adjustments and significant changes to the fair valu measurement of level 3 instruments compared with the previous period.

When third party information, such as broker quotes or pricing services, is used to measure fair value, market risk assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRSs/ LKASs. This includes:

* Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of Financial Instrument;
* Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
* When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
* If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

47.4 Financial InstrumentsMeasured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Statement of Financial Position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

As at 31 December			**2021**	
	Level 1	**Level 2**	**Level 3**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Equity Instruments at fair value through profit or loss	**188,140**	**-**	**-**	**188,140**
Financial assets-fair value through other comprehensive income	**-**	**-**	**2,289,919**	**2,289,919**
	188,140	**-**	**2,289,919**	**2,478,059**

As at 31 December			2020	
	Level 1	Level 2	Level 3	Total
	Rs.	Rs.	Rs.	Rs.
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
	145,160	-	2,289,919	2,435,079

47.5 Trading assets and other assets measured at fair value

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.

47.6 Financial Instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

		2021		2020	
	Fair value hierarchy	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets		**Rs.**	**Rs.**	Rs.	Rs.
Cash and cash equivalent	Level 2	**1,486,878,989**	**1,486,878,989**	3,758,858,141	3,758,858,141
Placements with Banks	Level 2	**6,596,072,932**	**6,596,072,932**	8,436,353,244	8,436,353,244
Financial assets at amortised cost - Debt & other instruments	Level 2	**54,856,210,318**	**54,520,749,578**	46,962,354,137	47,889,487,605
Financial assets at amortised cost - Loans and receivables from other customers					
Pawning	Level 2	**20,173,958,657**	**20,173,958,657**	15,433,723,728	15,433,723,728
Staff loans	Level 2	**4,614,968,345**	**4,470,424,793**	4,122,588,706	4,027,955,350
Short-term	Level 2	**9,989,450,293**	**9,989,450,293**	10,307,093,390	10,307,093,390
Long-term	Level 2	**153,291,882,926**	**95,480,281,792**	136,274,370,012	81,125,938,720
Other assets	Level 2	**3,721,641,936**	**3,721,641,936**	1,788,634,829	1,788,634,829
		254,731,064,396	**196,439,458,971**	227,083,976,187	172,768,045,008
Financial liabilities					
Due to banks	Level 2	**29,500,936,543**	**29,211,567,919**	21,796,679,350	21,489,456,823
Due to other customers	Level 2	**187,752,465,256**	**187,752,465,256**	172,882,632,278	172,882,632,278
Debt issued and other borrowed funds	Level 2	**2,000,000,000**	**2,000,000,000**	2,000,000,000	2,000,000,000
Other liabilities	Level 2	**5,514,857,775**	**5,514,857,775**	4,175,418,552	4,175,418,552
		224,768,259,574	**224,478,890,950**	200,854,730,180	200,547,507,653

46.7 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 one year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to savings accounts without a specific maturity.

Loans and Receivables to customers

More than 36% of the total portfolio of loans and advances to customers have a remaining contractual maturity of less than one year. Therefore fair value of short term loans and advances to customers approximates to their carrying value as at the reporting date.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

Due to Customers

Around 68% 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.

The fair value of financial investment held to maturity is estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments.