



Expanding with Opportunity



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During the pandemic, the future for many seemed uncertain, as challenges confronted social and economic systems. During this time of uncertainty supporting hard-hit SMEs, micro and women entrepreneurs became imperative as we funded those with liquidity constraints. And taking the lockdown as an opportunity for digital expansion, we expedited several digital solutions, enabling customers to access services in quick-time.

Our roadmap for the future is now complete with identified opportunities – of which digitalisation is central in extending support to individual customers and businesses. Moreover, we have affirmed our continued support towards our regional clientele including MSMEs and women entrepreneurs in scaling operations enabling them to reach opportunities of prosperity and success.

While providing financial prosperity, we are committed to providing purpose to our rural patrons and MSMEs, expanding through opportunities and creating prosperity amongst these communities.

Content

VISION

"To be the trusted development financing partner to the nation"

MISSION

"To provide financial and affiliated services to enterprise and entrepreneurs whilst promoting inclusive development"

ABOUT RDB

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

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

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

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

Today, with over six million loyal account holders complemented by 272 branches and empowered by over 2,600 professional permanent staff members, the RDB is well equipped to implement its vision of nurturing entrepreneurs who will propel our country's socio-economic prosperity.

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Our Journey / Milestones

Total Assets Growth

500%

From LKR 41 Bn. to LKR 246 Bn.

Total Deposits Growth

488%

From LKR 32 Bn. To LKR 188 Bn.

Total Loan and Advances Growth

530%

From LKR 30 Bn. to LKR 189 Bn.

Operating Profit Growth

419%

From LKR 37 Mn. to LKR 1,927 Mn.

Total Equity Growth

413%

From LKR 3 Bn. to LKR 15.4 Bn.

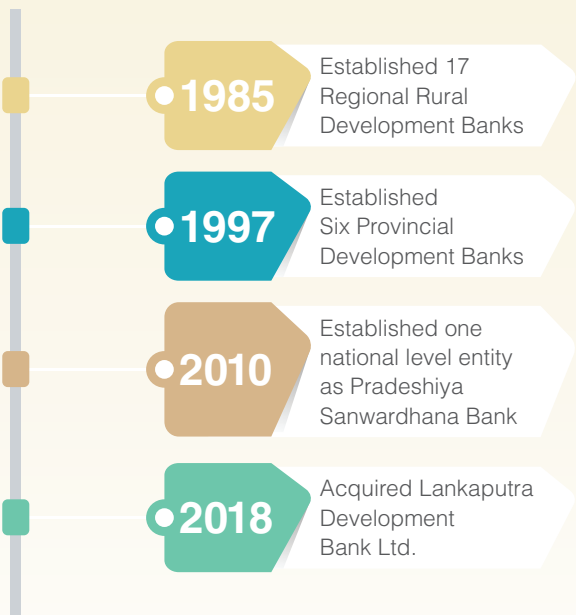
The journey of success after merging six Provincial Development Banks as one National Level Development Bank

Results achieved by Provincial Development Banks (i.e. Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks) During the twenty four years period from 1985 to 2009, have drastically improved during the eleven + years period (2010-2021) after establishing Regional Development Bank (RDB) in 2010 merging all previous provincial development banks.

FROM MAY 2010 TO DECEMBER 2021

- Total Deposits of RDB has increased by LKR 156 Bn. from LKR 32,350 Mn. to LKR 187,752 Mn.
- Total Loans and Advances of RDB has increased by LKR 159 Bn., from LKR 30,311 Mn. to LKR 189,040 Mn.
- Total Asset of RDB has increased by LKR 205 Bn., from LKR 41,018 Mn. to LKR 245,890 Mn.

HISTORY OF RDB



The beginning of Regional Development Bank (RDB) can be traced to 1985 when district level banks under the category of Regional Rural Development Banks were established in terms of Regional Rural Development Bank Act No.15 of 1985. Subsequently in 1997, under the Regional Rural Development Bank Act No. 06 of 1997, seventeen Regional Rural Development Banks were amalgamated in to six provincial development banks, Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks. With the introduction of Pradeshiya Sanwardhana Bank Act No. 41 of 2008 these six banks were merged into one national entity as Pradeshiya Sanwardhana Bank (Regional Development Bank) on May 2010. Being the RDB at national level Government-owned Development Bank.

In accordance with the State Budget proposals of the year 2016, Lankaputra Development Bank Ltd. had been acquired by the RDB to enhance socio-economic prosperity of Sri Lanka in a more effective manner.

The objective of the bank shall be to facilitate the overall regional economic development of Sri Lanka by promoting the development activities such as agriculture, industry, trade, commerce, livestock, fisheries and empowerment of women mainly by granting financial assistance to Micro Financial Institutions and Small and Medium scale Enterprises.

FINANCIAL HIGHLIGHTS

- As a financial institution dedicated to development Banking, Regional Development Bank continues to play a vital role in the uplifting of social and economic development activities in the country. The Bank has been in the forefront of almost all the development programmes in the island playing a significant role as a financier. Our key asset is our customer base of over six million spread through the country, including North and East Development of the country and its people is the main focus on the Bank. Hence, the Bank is committed to empowering them and thereby developing the nation through its 272 branches in the island-wide network.
- Total income of the bank has increased by 0.57% compared to the previous year 2020, Operating profit decreased to LKR 1,927 Mn. Which is 6.5% less than the operating profit of LKR 2,061 Mn. recorded in 2020. Return on Assets (ROA) Before tax has recorded as 0.78% that stood at 1.09% in 2020.

SUPPORTIVE SERVICES TO OUR CUSTOMERS



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



- Lanka Money Transfer (LMT) With DFCC** - Lanka Money Transfer remits money directly and instantly to customer bank account with no downtime. Lanka Money Transfer is with a wide international network consisting of over 275 locations and this service is available at 272 RDB branches island-wide

- Utility Bills Payment Service** With Sri Lanka Telecom, Ceylon Electricity Board (CEB), National Water Supply and Drainage Board (NWSDB).

- RDB ATM and LankaPay ATM Facility** - Now our customers are able to withdraw their money at any one of over 4000 ATMs island-wide. Approximately 287,000 ATM cards have been issued to customers as of now.

- Common Electronic Fund Transfer (CEFTS) System** Inter bank fund transfer facility is available for our customers.

- Cash Deposit Machines (CDM)** - Available at selected branches.

RDB QR Facility

RDB enables customers to pay merchants directly from their bank accounts using any of LANKAQR compliant mobile payment app. The payment is instantly credited to the merchant's bank account.

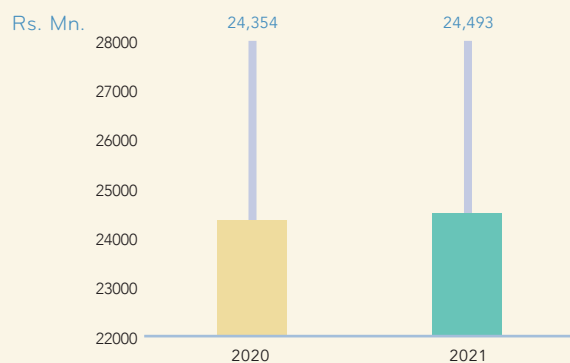


Financial Highlights

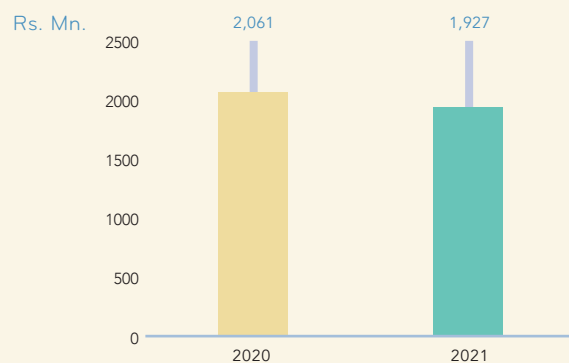
As at 31 December	2021 LKR. 000'	2020 LKR. 000'	Change %
Operating results for the year			
Gross income	24,492,769	24,354,247	0.57%
Operating profit before VAT	1,926,782	2,060,859	-6.51%
Taxation	1,620,479	1,656,823	-2.19%
Profit after tax	306,303	404,036	-24.19%
Profit attributable to shareholders	279,005	148,995	87.26%
Assets & liabilities			
Customer deposits	187,752,465	172,882,607	8.60%
Loans & receivables	189,039,666	167,099,050	13.13%
Total assets	245,889,512	221,109,151	11.21%
Total liabilities	230,496,189	205,994,834	11.89%
Shareholder's fund	15,393,322	15,114,317	1.85%
Profitability			
Return on assets (Operating profits)	0.78%	1.09%	-0.31%
Return on equity	1.99%	2.72%	-0.73%
Non-performing loan ratio	8.71%	10.11%	-1.40%

Capital Adequacy Ratio (As per BASEL III)	2021 (%)	Minimum Requirement	2020 (%)	Minimum Requirement	Change %
Regulatory ratios					
Common equity tier 1 including capital conservation buffer	8.72%	7.5%	10.34%	7.5%	-1.62%
Total tier 1 including capital conservation buffer	8.72%	8.5%	10.34%	8.5%	-1.62%
Total capital ratio including capital conservation buffer	14.27%	12.5%	14.94%	12.5%	-0.67%
Statutory liquid assets ratio	26.18%	20.0%	29.30%	20.0%	-3.12%

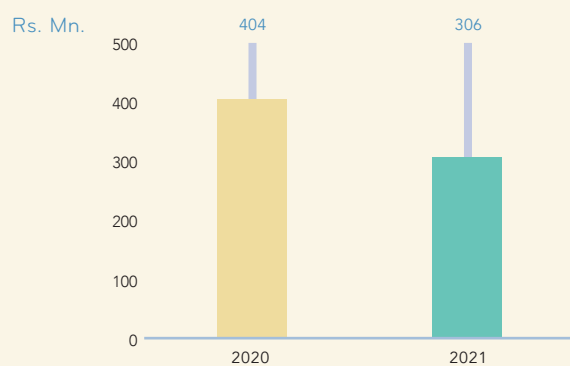
Gross Income



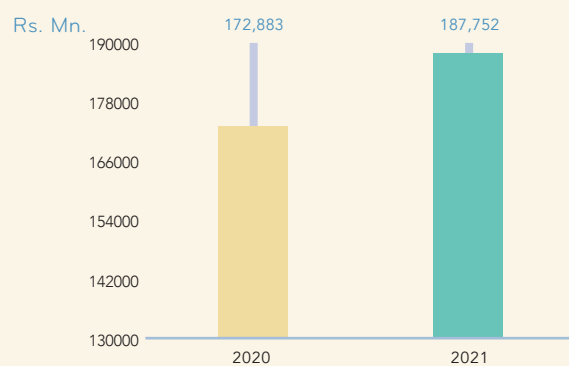
Operating Profit Before Taxes



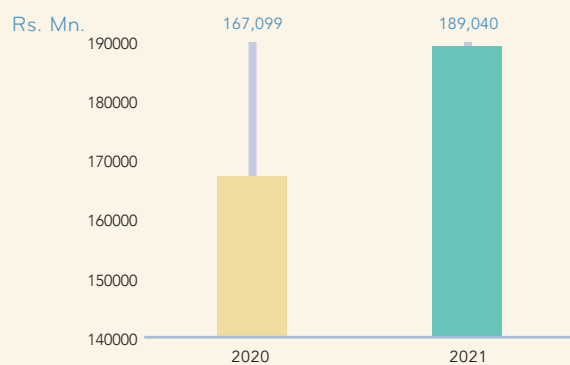
Profit After Tax



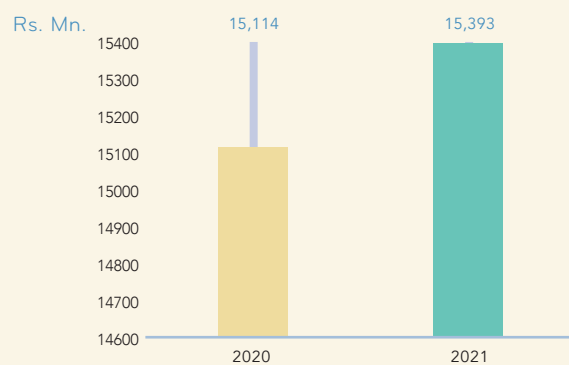
Customer Deposits



Loans and Receivables



Shareholder's Fund



Chairman's Message



The year 2021 was the second year the entire world grappled with the challenges posed by the COVID-19 pandemic and there was a notable downturn in all global economies. With millions of lives lost across the world, the human cost will continue to affect global economic growth while the pandemic triggered increased levels of poverty and social unrest. The disruption of global trade negatively impacted the performances of the banking sector although it demonstrated a higher level of resilience in the face of unprecedented challenges. On a positive note, the increased usage of online tools and technologies to carry out business, educational and entertainment activities brought about a relative sense of normalcy and augers well for the future as the population embraces online interactions as a way of life in today's digitally-connected world.

In Sri Lanka, overall GDP registered a growth of 3.7% in 2021, a much better performance in comparison to the decimal -3.6% recorded in 2020. The tourism sector, a key income generator for the economy, was one of the many sectors hard hit by the pandemic and with a large number of our Bank's customer base plying their trade in this industry they were faced with untold financial difficulties due to the huge drop in tourists and had to resort to finding new avenues to earn a living. To combat the adverse impact of the pandemic the Government was forced to increase expenses for healthcare and financial support to vulnerable groups from Rs. 117.5 Bn. in 2020 to Rs. 165.6 Bn. in 2021. The Bank extended its fullest support to the Government to revive the slow growth of economic activities by helping entrepreneurs through concessionary loans in a timely and efficient manner. Under the guidance of the Central Bank of Sri Lanka, the Bank initiated relief measures to eligible individuals and businesses facing financial difficulties due to the third wave of the pandemic. However, the Bank managed to maintain the profitability at a marginal level giving the maximum benefit to the customer.

One of the key achievements of the year was the creation of the Corporate Plan 2022-2024 with a new shape, the outcome of a collaboration among the Board, senior leadership and the staff representing all divisions of the Bank. It outlines what we intend to achieve over the next three years in delivering our mandate towards our Vision "To be the trusted development financing partner to the nation".



During the year, major strides were taken on the technological front as the Bank continued to surge forward with its goal of enhancing its digital services. We launched the RDB QR facility to empower our Merchant customers by providing them with a useful technological tool to bring about added convenience when running their businesses.

CHAIRMAN’S MESSAGE

During the year, major strides were taken on the technological front as the Bank continued to surge forward with its goal of enhancing its digital services. We launched the RDB QR facility to empower our Merchant customers by providing them with a useful technological tool to bring about added convenience when running their businesses. The Bank’s commitment towards digital excellence was highlighted when it bagged the Gold Award as the “Best Lanka Pay Card Implementer of the year 2021” at the LankaPay Technnovation Awards 2022 organized by Lanka Clear. The groundwork was carried out to purchase 50 new ATMs which will be deployed at strategic locations in 2022. The project to deploy the Loan Originating System (LOS), a much-needed IT system that will fast track loan procedures, has made steady progress and the system is expected to be rolled out in the new financial year. Other notable investments in terms of boosting our technological infrastructure included the implementation of Web Application Firewall and Global Server Load Balancer as well as the printing, personalizing and delivery of chip-based VISA Debit Card.

For several years, the Bank has been managing 5 Government warehouses located in Mannar, Kilinochchi, Medirigiriya, Upuldeniya, and Buttala with capacities ranging from 5,000 metric tonnes upwards. Due to various reasons, these warehouses have been under-utilised. During the year, plans were laid out to streamline the operations and increase the efficiencies of these warehouses giving more benefits to the farmers.

The Bank has built a reputation as a financial institution that uplifts women entrepreneurs. In keeping with this approach, during the year the foundation was laid to launch a unique programme to encourage and support them to develop their business enterprises. Titled “RDB Diri Abhimani”, this programme plans to develop 10,000 women entrepreneurs at district, provincial and national level and motivate them to grow their businesses by offering cash awards. The national level competition for 2021 of this programme was held on 8th March 2022 at the CBSL Vidupiyasa, Rajagiriya and awarded valuable prizes for the winning women entrepreneurs.



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In the early part of the year, the Bank's service centre at the newly-built Manning Market in Peliyagoda was declared open, complete with ATM and CDM facilities. Although the prevalent uncertain economic situation did not justify the expansion of the Bank's branch network during the rest of the year, the existing network was enhanced through branch relocations, major renovations and selected refurbishments with the aim of providing our valued customers with greater convenience in carrying out their banking activities.

I am of the firm belief that the bank's branch network needs to be restructured in a methodical manner that lessens the burden on each branch. Currently, each branch reports to the district office, Regional Office and the Head Office which results in a considerable burden to the branch and leads to delays in carrying out banking activities. Accordingly, together with several other amendments, we have taken action to amend the PSB Act with draft amendments already submitted to the Ministry of Finance for necessary review and action.

FUTURE OUTLOOK

We intend to reach our customers by leveraging the power of new technology and deliver innovative customer services. Financial assistance and consultancy services will be provided for value chain and value added enterprises for all crops in the export agriculture sector while we will also gear up to develop value-added businesses in the fisheries and commercial sectors and other micro and small enterprises by providing quality financial services. Through careful planning, new products and services will be introduced to provide customers more choice in meeting their financial requirements. There will be greater emphasis placed on enhancing the Bank's human resources by investing in necessary capacity building. The Bank will also remain focused on our efforts to enhance the quality of our loan portfolio in order to better face the challenges of the future.

ACKNOWLEDGEMENTS

Before I bring my message to a close, I would like to convey my deepest appreciation to the frontline workers including the healthcare professionals, the armed forces and all other individuals who have continued to perform bravely to save thousands of lives in the face of the deadly pandemic. On behalf of our Board of Directors, I wish to convey my gratitude to all our customers and our other stakeholders for their continued loyalty to the Bank even during this turbulent period. I am also thankful to the management staff and all RDB employees who have performed admirably to serve our valued customers and be with them during their time of need. We have successfully navigated through two years of the pandemic and if we demonstrate the same passion, work ethic and commitment, I am confident that we will be able to take Sri Lanka towards a prosperous future.



Mahinda Saliya
Chairman

General Manager's/ CEO's Review




While completing 12 years of national level development banking, Pradeshiya Sanwardhana Bank marked an unparalleled year in 2021 witnessing many challenges. As a member who has been with the bank for over three decades amidst great changes and challenges, it gives me immense pleasure to pen this message while steering the new responsibilities of the Bank.

Consecutively hit by economic adversities due to the COVID-19 pandemic, 2021 marked a year of difficulties not only to the bank but to the entire banking industry. However, amidst all the doom and gloom of the year, I am proud to note that the Pradeshiya Sanwardhana Bank was able to sustain its activities at a reasonably high level thereby delivering hope to all our customers and giving the country's economy a timely boost.

Even in such a turbulent environment, the Bank shouldered the added responsibility of being a state development bank that serves as a financial pillar of the communities we serve by taking a leading role in the granting of loan concessions and implementing loan moratoriums under the direction of the Central Bank of Sri Lanka. The bank helped advance the new credit schemes introduced by the Government whilst fulfilling other social responsibilities as well. The bank placed special emphasis in ensuring that the benefits of these credit schemes were properly communicated to the general public by carrying out various awareness programs across the island.

FINANCIAL HIGHLIGHTS OF THE YEAR

Despite the challenging conditions in the industry, the Bank recorded a post tax profit of LKR 306 Mn. for the year 2021 while registering a 11% YOY growth in the asset base from LKR 221 Bn. last year to LKR 246 Bn. in the year under review. The loan portfolio registered a 13% YOY growth to LKR 189 Bn. along with the 8.6% YOY increase in the deposit portfolio to LKR 188 Bn. Net interest income of the Bank grew 26% to LKR 13.7 Bn. in 2021 from LKR 10.9 Bn. last year while operating profit slightly dropping to LKR 1.9 Bn. from the LKR 2.1 Bn. achieved last year. The key factors for the declines were increasing operating expenses of LKR 9.1 Bn. and impairment charges of LKR 3.2 Bn. even under a second consecutive year of lower economic growth in the country, the NPA portfolio slightly decreased by 1.8% from LKR 16.6 Bn. recorded in 2020 to LKR 16.3 Bn. in the year under review while the NPA ratio reduced to 8.71% from 10.11% last year.



Consecutively hit by economic adversities due to the COVID-19 pandemic, 2021 marked a year of difficulties not only to the Bank but to the entire Banking industry. However, amidst all the doom and gloom of the year, I am proud to note that the Pradeshiya Sanwardhana Bank was able to sustain its activities at a reasonably high level thereby delivering hope to all our customers and giving the country's economy a timely boost.

GENERAL MANAGER'S/CEO'S REVIEW

OPERATIONAL HIGHLIGHTS OF THE YEAR

Continuing the rapid response to the external environment, the Bank managed to achieve its planning process by formulating the Corporate Plan 2022-2024, an outcome of a collaboration among the Board, senior leadership and the staff representing all divisions of the Bank outlining intended achievements over the next three years in delivering our mandate towards our Vision of "To be the trusted development financing partner to the nation".

Marking the digital representation in the industry the Bank was able to make several digital initiatives during the year. These included the launching of RDB QR and Just Pay based transaction facility to enabling our Merchant customers by providing them with a useful technological tool to bring about added convenience when running their businesses. By using this QR technology, any customer who purchases goods or services from the Merchant can pay through a QR App of another bank with the funds being credited to the RDB account of the Merchant.

Implementation of Loan Organization System (LOS) and Collection Management System (CMS) which is at the final stage will give an enhanced customer service while providing much needed support for fast tracking and facilitating loan facilities.

Introduction of common Application Programming Interface (API) to the Core Banking System, Web Application Firewall and Global Server Load Balancer as well as the printing, personalizing and delivery of chip-based VISA Debit Card and implementation of Anti Money Laundering System will mark as other notable investments in terms of boosting our technological infrastructure.

The Bank's commitment towards digital excellence was highlighted when it bagged the Gold Award as the "Best Lanka Pay Card Implementer of the year 2022" at the LankaPay Technnovation Awards 2022 organized by Lanka Clear.

Keeping its commitment for continuous progress, the Bank managed to establish a framework for Key Performance Indicators (KPIs). Even amongst trying conditions, including social distancing due to the pandemic, the Bank managed to keep enhancing the knowledge levels of its Human Resources by implementing online training facilities.



The Bank's commitment towards digital excellence was highlighted when it bagged the Gold Award as the "Best Lanka Pay Card Implementer of the year 2022" at the LankaPay Technnovation Awards 2022 organized by Lanka Clear.

WOMEN EMPOWERMENT

The Bank took several initiatives in promoting women empowerment by encouraging women-led enterprises. By introducing loans and deposit products including Liya Saviya, Diri Abimani for the large-scale women oriented entrepreneurs, the Bank was able to uplift them in different ways such as financial support, skill development and technical assistance. RDB has been identified as a top tier performer (Position 3 out of 10 PFLs) in terms of meeting We-Fi specific requirements and goals in the mean of:

- Strategy for banking women and setting goals or KPIs for services to women
- HR policies supporting women in the workplace for minimizing gender gap
- Marketing to women clients
- Product and services meeting women entrepreneurs' needs
- Product and services meeting women's personal banking needs
- Ability to serve a woman's entire wallet (both entrepreneurial and personal banking needs)

APPRECIATIONS

Before I close out my Review, I would like to take this opportunity to extend my sincere gratitude to the thousands of heroic healthcare professionals, armed forces personnel and all other individuals who have bravely continued to perform their duty for the people of Sri Lanka and helped us to navigate out of this deadly pandemic. I would like to convey my appreciation to the current and past Chairmen and members of the Board of Directors for the advice and guidance offered to me during what was another challenging year. I am would also like to say thank you to the officials of the Central Bank of Sri Lanka, Ministry of Finance and other government institutions for their continuous cooperation and support extended to me and the Bank during the year.

I am also grateful to all our loyal customers for continuing to believe in the Bank and trusting in our capabilities to bring a better future for them. As always, we made every possible effort to help you face the uncertainties of these troubled times with a degree of confidence. On that note, I also wish to convey my appreciation to the entire staff of the Bank for all their hard work and dedication in helping our valued customers while also working towards achieving the Bank's objectives for the year. Once again, we all rose to the occasion and showed the world what can be achieved even during the most difficult of times when we all work together as one team with one common goal. We have put two tumultuous years behind us and I am certain that it has all made us stronger and better prepared to face what the future may have in store for the Bank and the country.



A H M M B Jayasinghe
General Manager/CEO

Stewardship





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Board of Directors



- 01. Mr. Mahinda Saliya - Chairman
- 02. Mr. W.M. Karunaratne - Director
- 03. Mr. K. Raveendran - Director
- 04. Mr. M.S.D. Ranasiri - Director
- 05. Mrs. Krishani Narangoda - Director
- 06. Mr. M.S.S.S. Fernando - Director



- 07. Dr. Nirmal De Silva - Director
- 08. Mr. G.A Jayashantha - Director
- 09. Prof. H.M.W. Ariyaratna - Director
- 10. Mr. Lalith Abeysiriwardana - Director
- 11. Mrs. Hiranthi Karunaratne - Director

BOARD OF DIRECTORS

MR. M. MAHINDA SALIYA

Chairman

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

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

The Rajarata Development Bank, Kotalawla Defense University, Defence Service Command and the staff College, Rakna Lanka Arakshaka limited, Sri Lanka Land Development corporation, Tower Hall Theater foundation and Selacine Television Institute are some of the State Institutions where Mr. Saliya had represented as a member of the Board of Directors.

MR. W.M KARUNARATNE,

Independent Non-Executive Director

Mr. W.M. Karunaratne, was appointed as an Independent/Non-Executive Director to the Board of Directors of Pradeshiya Sanwardhana Bank on 03.01.2020. Mr. Karunaratne is a retired Assistant Governor of Central Bank of Sri Lanka and counts over 30 years of experience in Banking. He has also worked as a consultant at a World Bank Funded project of "Warehouse Receipts Finance Project" for a period of three years administrated by the Ministry of Finance. He was the Chairman/CEO of RRDB - Anuradhapura as well as Board Director of Ruhuna Development Bank. Moreover, he has served as the Value Chain Finance Specialist for a Value Chain Development Project for the period of 03 years sponsored by Canadian Government.

He has published two books on Banking with the poor (Group lending) and Rural Savings Mobilisation, 06 books on Poverty lending, SME Financing, Lift Irrigation, Home gardening, Dairy development, Financial literacy as well as a book on Warehouse Receipt Financing.

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

MR. K. RAVEENDRAN

Non-Independent / Non-Executive Director

Mr. Raveendran is currently serving as the Senior Deputy General Manager of National Savings Bank overlooking the Branch Operations, Finance and Planning, Superannuation and Research & Development functions. He counts for over 24-year post qualifying experience in the Banking and Finance sector with more than 19 years at National Savings Bank. Prior to assuming duties as the Senior Deputy General Manager responsible with above functions, he has served in the capacity of Assistant General Manager and Deputy General Manager in the fields of Finance, Audit and Research & Development. He has also overseen the risk management function of the Bank. Mr. Raveendran has served in People's Merchant Bank as a Financial Analyst in the Corporate Finance Division and a Research Analyst at CDIC Sasoon Cumberbatch Stockbrokers prior to joining National Savings Bank.

Mr. Raveendran has served as a Visiting Lecturer at the University of Sri Jayewardenepura and the Institute of Bankers of Sri Lanka. Also, he is a prominent and versatile lecturer in the subject of Financial Management in the examination conducted by CA Sri Lanka.

He is also a Fellow Member (FCA) of the Institute of Chartered Accountants of Sri Lanka and a Founder (Fellow) Member of the Institute of Certified Management Accountants (CMA) of Sri Lanka. Mr. Raveendran holds a B. Sc. in Business Administration (Sp.) from the University of Sri Jayewardenepura with Honours and a Post Graduate Diploma in Banking and Finance from University of Colombo.

Other Current Appointments • Member of the governing council of the Association of Professional Bankers (APB) of Sri Lanka. • Alternate Member of the Governing Board of the Institute of Bankers of Sri Lanka (IBSL).

MR. M. S. D. RANASIRI

Independent/Non-Executive Director

Mr. M.S.D. Ranasiri, was appointed as an Independent/Non-Executive Director to the Board of Directors of Pradeshiya Sanwardhana Bank on 03.01.2020. Mr. Ranasiri is currently working as a Commission member at the National Pay Commission and he is the former Director General of Department of Treasury Operations of Ministry of Finance.

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

MS. V.K. NARANGODA

Non-Independent / Non-Executive Director

Ms. Krishani Narangoda joined the People's Bank in 1987 as a Management Trainee and counts over 35 years of service in the Bank.

She covered the areas of Branch Banking, Overseas Customer Services, Off-Shore Banking and Corporate Banking under various management capacities and presently serves as Deputy General Manager and covers the areas of Commercial Credit, Commercial Banking, SME, Development Finance and Micro Finance.

She holds an Honours Degree (BSc. Business Administration with Second Class Upper Division) from the University of Sri Jayawardenepura and Masters Degree in Business Studies from the Faculty of Graduate Studies, University of Colombo. She also an associate member of Institute of Bankers of Sri Lanka and Institute of Credit Management of Sri Lanka. She obtained an Advance Certificate in Customer Relationship Management from the Post Graduate Institute of Management at University of Sri Jayawardenapura.

During her Banking career she has participated in various Banking /Management programs both locally and internationally. She was appointed as a Board Director to the Regional Development Bank and she is a registered examiner of Institute of Bankers of Sri Lanka.

MR. S. FERNANDO

Non-Independent / Non-Executive Director

Mr. Saman Fernando is a special grade officer in the Sri Lanka Administrative Service. He joined the Sri Lanka Administrative Service in 1991. With over 25 years of experience in the public service, he has held various executive level positions in a number of ministries and departments. During his tenure, he has worked in the Department of Public Enterprise and the Department of Management Services, under General Treasury. He has also served in the Ministry of Finance as the Director General of Human Resources.

Mr. Saman Fernando has gained his first degree in Bachelor of Commerce from the University of Kelaniya. He also obtained a law degree from the Open University. In 2003, he took oath as an Attorney at Law. He holds MA in Financial Economics from University of Colombo and Postgraduate Diploma in Information Management from SLIIT

DR. NIRMAL DE SILVA

Independent Non-Executive Director

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

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

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

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

Dr. De Silva possesses the following Qualifications

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

BOARD OF DIRECTORS

MR. G. A JAYASHANTHA

Independent Non-Executive Director

Mr. Jayashantha counting over 24 years of service in Banking was in the branch banking in the early part of his career and later specialized in Treasury, Dealing & Primary Dealer Unit (PDU), Assets & Liabilities Management Unit (ALM), Risk Management, Corporate Recovery, Offshore Banking and Branch Operations.

He graduated from the University of Sri Jayawardenapura, Sri Lanka in 1994 with a B.Sc. Business Administration (Special) degree in First Class. He holds a Master of Arts in Financial Economics at University of Colombo and also has a Diploma in Credit Management. He is an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. Jayashantha serves as a member/an observer to various management committees and Board Sub Committees and shares experiences in policy matters/strategic decisions.

Mr. Jayashantha held the positions of Assistant General Manager (Corporate Recovery), (Risk Management), (Western Province - South) & (Offshore Banking) and Deputy General Manager (Retail Banking Range - II), before assuming the duties as Deputy General Manager / Chief Risk Officer.

Mr. Jayashantha serves as a Director on the Board of Merchant Bank of Sri Lanka & Finance PLC, BoC Property Development & Management (Pvt) Limited, Ceybank Asset Management Limited. He is also an Alternate Director to the Governing Board of Institute of Bankers' Sri Lanka.

PROFESSOR H.M.W. ARIYARATHNA HERATH

Independent Non-Executive Director

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

He has been employed in the University of Peradeniya for 27 years in the posts of a Lecturer, and then Senior Lecturer, and as a Professor. During this period he had also served at the National Institute of Co-operative Development (NICD), Polgolla in the capacity of Director (Academic and Development), and International Research Centre, University of Peradeniya as a Deputy Director. Currently he holds the position of the Head of the Department, Department of Economics and Statistics, University of Peradeniya.

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

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

MR. LALITH ABEYSIRIWARDANA

Independent/ Non-Executive Director

Mr. Lalith Abeysiriwardana was appointed as an independent/Non-Executive Director to the Board of Directors of PSB also known as RDB on 03/01/2020. Mr. Abeysiriwardana is an Attorney-at-law by profession since 1996. He also holds a degree in Bachelor of Law (LL.B) from university of Colombo.

At present Mr. Abeysiriwardana holds the position of Director of Lead Business Development and Management company (pvt)Ltd, Urban Foods (pvt) Ltd , Lead Hardware and Constructions (pvt)Ltd, Verazo Holdings (pvt) Ltd, and Spare Business Development and Management company (pvt)Ltd.

MRS. HIRANTHI KARUNARATNE

Independent Non-Executive Director

An Attorney-at-Law of the Supreme Court of Sri Lanka since October, 1985 having a strong legal exposure (Local and International) for more than 36 years.

Served as a State Advocate attached to the Director of Public Prosecutions in the Republic of Zambia and served as a Senior State Counsel at the Attorney General's Chambers (Civil Department) in the Republic of Kenya.

Served on the Bank's Panel of Lawyers of Pan Asia Banking Corporation PLC.(Kurunegala Region) from 2003 to 2014.

Served on the Bank's Panel of Lawyers of Commercial Bank of Ceylon PLC.(Kurunegala Region - from 2003 to 2014, Kandy Region - 2014 to 2020 and Colombo Region - from 2020)

Good at reviewing of complete written documents, drawing conclusions and making connections among legal authorities.

Good at problem solving while assigning preeminence to logical reasoning. Researching and analyzing complex legal documents and handling the task of preparing all types of legal documents are performed while the work associated to conveyancing being the forte.

The examination of title to property offered as security against borrowings and tendering of opinions on matters of interest to the banks were primarily assisted. Maintenance of lofty ideals of work ethics connected with the profession and a strong sense of dedication to the work entrusted are sought while ensuring highest level of professionalism when interacting with clients.

Corporate Management Team



MR. A.H.M.M.B. JAYASINGHE

General Manager/CEO

Mr. Jayasinghe graduated from the University of Sri Jayewardanepura Sri Lanka with a B.Sc. Business Administration Special Degree, in 1986. He holds Postgraduate Executive Diploma in Bank Management from Institute of Bankers of Sri Lanka, Postgraduate Diploma in Management from University of Wayamba, Postgraduate Diploma in Regional Development from NIBM Sri Lanka. He also has a Masters Degree in Business Administration (MBA) from EIPEL Campus and IIC University of Cambodia.

After the graduation he joined the Regional Development Bank in 1987 and served at the levels of Branch Manager, Zonal Manager, District Manager, Chief Manager, Assistant General Manager and Regional General Manager. Mr. A.H.M.M.B. Jayasinghe has over 33 years of experience in Banking Industry.



MR. V. JAYASINGHE

Chief Information Officer

Mr. Jayasinghe, an IT professional with more than 22 years of experience, joined Regional Development Bank in June 2011. He holds a B.Sc. Engineering Degree from the University of Moratuwa. He also has a Master of Engineering Degree from the Asian Institute of Technology in Thailand and Master of Business Administration Degree from the University of Hawaii, USA. After graduation, he started his career as a Systems Engineer at IBM World Trade Corporation. He counts more than eighteen years of work experience in Management positions of financial services and banking industry. A Certified Information Technology Professional (CITP) of the British Computer Society and a Certified Project Management Professional (PMP) of the Project Management Institute of USA, Mr. Jayasinghe is a Chartered Engineer in Information and Communication Technology.



MR. P.S. EDIRISURIYA

Chief Financial Officer

Mr. Edirisuriya graduated from the University of Sri Jayewardanepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr. Edirisuriya counts over 31 years of experience in the fields of Auditing, Accounting, Taxation, Management Consultancy and Banking and Finance at leading institutions including Ernst & Young - Colombo, National Development Bank and Seylan Bank. He joined RDB in January 2017. Prior to his appointment as Chief Financial Officer at RDB, he has held the positions of Chief Financial Officer, Compliance Officer and Acting General Manager/CEO at Lankaputhra Development Bank.



MR. C.L. PIHILLANDA

Deputy General Manager - Operations and Business Support

Mr. Pihillanda has successfully completed the Degree in Bachelor of Commerce from University of Kelaniya. He holds Postgraduate Diploma in Management from University of Peradeniya. Also passed Intermediate Examination from Institute of Bankers of Sri Lanka. He joined the Bank (previously Mahanuwara Regional Rural Development Bank/RRDB) as a Manager. During his career of banking he has gained wide range of experience in management level as a Branch Manager, Chief Manager, and Assistant General Manager and also as a Regional General Manager in Sabaragamuwa and Southern Provinces. He has over 33 years of experience in Banking Industry.



MR. D.M.T.S. KUMARA

Head of Recovery

Mr Kumara has over 30 years of experience in Banking Industry. He joined the Bank (previously Polonnaruwa Regional Rural Development Bank/ RRDB) in year 1991 and served at the levels of Banking Assistant, Manager, Senior Manager, Chief Manager, Assistant General Manager and also as a Regional General Manager in Uva and North Western Provinces. He has successfully completed the Special Degree in Bachelor of Science (Business Administration) from University of Sri Jayawardhanapura. He holds Master of Arts from University of Kelaniya. Also passed Intermediate Examination from Institute of Bankers of Sri Lanka.



MR. A.H.M.G. ABEYRATHNA

Deputy General Manager Credit and special Projects & policy Implementation

Mr A H M G Abeyrathna graduated with a Special Commerce Degree from the University of Kelaniya, Sri Lanka, in 1986. He has successfully completed Master of Business Administration from University of Wayamba 2016. He has successfully completed the Micro Finance Course conducted by Open University of Sri Lanka.

In 1987, He has joined the Regional Development Bank and served at the levels of Branch Manager, Chief Manager, Assistant General Manager and Regional General Manager at North Central and Sabaragamuwa Provinces. He has over 33 years of experience in banking sector.



MR. D.K.S. SERASINGHE

Chief Human Resources Officer

Mr Krishantha Sanjeeewa Serasinghe, has more than 20 years' experience in the field of HR since 1999, joined Regional Development Bank in January 2021. He holds a B.Sc. Special Degree for Human Resources Management from the University of Sri Jayawardanapura and Master of Science for Management degree from same University. He has successfully completed the fellowship Programme on Human Resources Management through Total Quality Management in Tokyo, Japan. Mr Krishantha started his career in corporate and middle management positions in public and private sector organizations. In 2014/2015 he has worked as Deputy General Manager- HRD of National Savings Bank.



MR. E.A.D.J. PRIYASHANTHA

Chief Internal Auditor

Mr. Priyashantha is a fellow member of The Institute of Chartered Accountants of Sri Lanka and an Associate Member of Institute of Bankers of Sri Lanka and a Certified Member of the Institute of Certified Management Accountants Australia and holds a B Com Special Degree with a Second Upper Division. He joined Regional Development Bank since 27th June 2022.

He possesses more than 30 years of experience in Banking Finance and Auditing in People's Bank and Public Sector Institutions.

Senior Assistant General Managers / Regional General Managers

SENIOR ASSISTANT GENERAL MANAGERS



1. MR. G.S.D. DE SILVA

**Senior Assistant General Manager -
Credit Administration**

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

REGIONAL GENERAL MANAGERS



1. MR. K.P. DAHANAYAKE

**Regional General Manager -
North Central Province**

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



2. MRS. C.S. WERAGODA

**Regional General Manager -
Sabaragamuwa Province**

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



3. MR. R.M.R. RANDENIYA

**Regional General Manager -
Eastern Province**

- Regional General Manager -
Central Province**
- BA Degree - University of
Peradeniya
 - Certificate of Banking and
Finance - Institute of Bankers of
Sri Lanka



4.MR. K. ARIYATHILAKA

Actg. Regional General Manager - Southern Province

- Higher National Diploma in HRD - National Institute of Business Management



6. MR. W.M.D.S. WICKRAMASINGHE

Regional General Manager - Uva Province (Till 10.11.2021)

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



8. MR. M.M.S. ANANDA

Actg. Regional General Manager - Western Province

- Associate Membership of Institute of Bankers of Sri Lanka



5. MRS. B.R.D. PUSHPAKUMARI

Actg. Regional General Manager - North Western Province

- B.Com (Special) Degree - University of Kelaniya



7. MR. B.G.W.A. KUMARA

Actg. Regional General Manager - Eastern Province

Regional General Manager - Uva Province (Duty Covering) (From 10.11.2021)

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

Assistant General Managers/ Heads of Divisions

ASSISTANT GENERAL MANAGERS



1. MR. D.S.P.C. HANDUNHEWA

Assistant General Manager - Marketing, Research and Product Development

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



5. MR. G.M.B.C. DE SILVA

Assistant General Manager - Administration

- B.Com Degree - University of Sri Jayewardenepura
- Associate Membership of Institute of Bankers of Sri Lanka
- Postgraduate Diploma in Business Management - Wayamba University of Sri Lanka
- MBA - Wayamba University of Sri Lanka
- Certificate Course in Micro Finance



2. MR. W.V.E.G. WARAKAGODA

Assistant General Manager - Treasury (Till 24.08.2021)

- B.Sc. - Business Administration (Special) Degree - University of Sri Jayewardenepura
- Intermediate Examination - The Institute of Chartered Accountants of Sri Lanka



6. MR. P.M.S. WICKRAMARATNA

Assistant General Manager - Recovery

- B.Com (Special) Degree - University of Colombo
- Intermediate Examination - The Institute of Chartered Accountants of Sri Lanka
- CBF - Institute of Bankers of Sri Lanka
- MAAT



3. MR. P.S.T. RANATHUNGA

Assistant General Manager - Central Province

- BA (Special) Degree - University of Colombo



7. MR. M.A. GNANARATHNE

Assistant General Manager - Sabaragamuwa Province

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



4. MR. K.C.D. DHARMAPRIYA

Assistant General Manager - North Central Province

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



8. MR. K.B. WIJERATHNA

Assistant General Manager - Finance

- B.Sc. Business Management (Special) Degree - University of Rajarata
- Intermediate Examination - The Institute of Chartered Accountants of Sri Lanka
- DABF - Institute of Bankers of Sri Lanka



9. MR. W.M.S. WIJETHUNGA

Assistant General Manager - Information Technology

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



13. MRS. W.V.D.P. KUMUDINI

Assistant General Manager - HR Service & Development

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



10. MR. W.P.M.K. DASANTHA

Assistant General Manager - Engineering

- B.Sc. (Eng.) - Hons. - University of Moratuwa
- PGDip. In Technology - Open University of Sri Lanka
- Chartered Engineer - MIE (SL)
- Associate Member- SSE (SL)
- MBA - PIM (SJP)
- Chartered Member - ILT (SL)



14. MR. C.L.C. MUTHUBANDA

Assistant General Manager - Internal Audit

- B.Sc. Business Administration (Special) Degree - University of Sri Jayewardenepura
- AIB - Institute of Bankers of Sri Lanka



11. MAJOR GENERAL JAGATH PAKSHAWEERA

Chief Security Officer

- RSP, VSV, USP (Rtd)



15. MRS. W.M.I.K. ABEYRATHNE

Assistant General Manager - Procurement

- B.Sc. (Physical Science) Degree - University of Peradeniya
- Higher National Diploma in Public Procurement Contract Administration - SL Institute of Development Administration



12. MRS. R.M.T. RAJAPAKSHA

Board Secretary

- Attorney at Law
- LLB - University of Colombo



16. MR. P.H. WIJETHILAKA

Assistant General Manager - Southern Province

- B.Sc (State Mgt. & Valuation) Degree - University of Sri Jayewardenepura
- DBF - Institute of Bankers of Sri Lanka

ASSISTANT GENERAL MANAGERS/HEADS OF DIVISIONS



17. MR. H.M.P.A.G.U. BANDARA

Assistant General Manager - Uva Province

- AIB- Institute of Bankers of Sri Lanka
- PGDip. - University of Rajarata



20. MRS. H.M.N.M. HERATH

Assistant General Manager - Risk Management

- B.Sc. - Business Administration (Special) Degree - University of Sri Jayewardenepura
- Master of Business Administration - University of Wayamba.
- Associate Member of The Institute of Chartered Accountants of Sri Lanka
- AIB- Institute of Bankers of Sri Lanka
- Fellow Member - CMA



18. MR. R.M.D.S.P. MAHANAMA

Assistant General Manager - Western Province

- PGDip. - University of Peradeniya
- AIB- Institute of Bankers of Sri Lanka
- Associate Member of The Institute of Marketing



21. DR. A.S.K.B. RATHNAYAKE

Assistant General Manager - Business Transformation

- B.Sc. - MIS - National University of Ireland
- Master of Business Administration - Leeds Metropolitan University.
- PHD - Aldersgate Collage



19. MRS. G.B.M.T.K. WIJERATHNA

Assistant General Manager - Compliance

- BA (Special) Degree - University of Peradeniya
- CBF - Institute of Bankers of Sri Lanka



22. MR. M.A. THOTADENIYA

Assistant General Manager - Credit

- BA (Special) Degree - University of Peradeniya



**Assistant General Manager -
North Western Province**

- B.com Degree - University of Peradeniya

23. MR. A.A.J. AMARASINGHE



**Chief Legal Officer
(Till 2nd March 2022)**

- Attorney at Law

25. MRS. P.N. EKANAYAKA



**Assistant General Manager -
Legal (From 3rd March 2022)**

- Post Graduate Diploma in Labour Studies - University of Colombo
- Master of Science - University of Moratuwa
- Bachelor of Law (LLB)
- Attorney at Law

24. MRS. A.R.R. PIYASEKARA

Management Discussion and Analysis





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Financial Review

As a financial institution, dedicated to Development Finance, Regional Development Bank (RDB) is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programs in the Island, playing a vital role as a financier. RDB has now emerged as a unique Financial Institution for Regional Development in the Island, serving the sectors of the economy, where most financial institutions are reluctant to actively participate in this sensitive and sophisticated arena. Our key asset is our customer base of over six million, spread throughout the country, including both North and East. Development of the country and its people are the focus of the Bank. So, the Bank is committed in empowering them and thereby developing the Nation through its island-wide branch network of 272 branches.

PROFITABILITY

Profit after Tax of the Bank has decreased by 24.19%, compared to the previous year. In the year 2021, operating profit decreased to LKR. 1,926 Mn., which is 6.51% less than the operating profit of LKR. 2,060 Mn. recorded in 2020. Return on Assets (ROA) before tax has recorded as 0.78% that stood at 1.09% in 2020. Also, the Bank reached total assets of LKR. 246 Bn. as at 31.12.2021 which recorded 11.21% growth over the previous year.

PROFITABILITY OVER THE BUDGET

Item	Actual LKR. 000	Budgeted LKR. 000	Change
Gross Income	24,492,769	23,578,349	3.88%
Operating Profits	1,926,782	1,530,681	25.88%
Profit After Tax	306,303	99,808	206.89%

RDB'S QUARTERLY FINANCIAL PERFORMANCE

RDB's quarterly financial performance has improved slightly during the year 2021.

Item	2021 - LKR.000				31-Dec-20
	31-Dec	30-Sep	30-Jun	31-Mar	LKR.000
Net Operating Income	11,030,507	7,280,569	4,527,818	3,156,715	9,777,002
Profit Before Tax	1,926,781	424,377	114,172	938,490	2,060,859
Profit /(Loss)After Tax	306,302	(673,505)	(537,306)	298,718	404,036
Loans & Receivables	189,039,666	178,117,483	174,048,448	173,257,287	167,099,049
Customer Deposits	187,752,465	181,285,031	178,356,961	176,489,724	172,882,632
Total Assets	245,889,512	236,204,470	231,052,370	230,282,792	221,109,150
Shareholder's Fund	15,393,322	14,440,812	14,577,011	15,686,263	15,114,316

INCOME

Total income of the Bank showed slightly increased by 0.57% to LKR. 24.49 Bn. from LKR.24.35 Bn. The Bank maintained the total income almost same as previous financial year even in the challenging economic condition in the country.

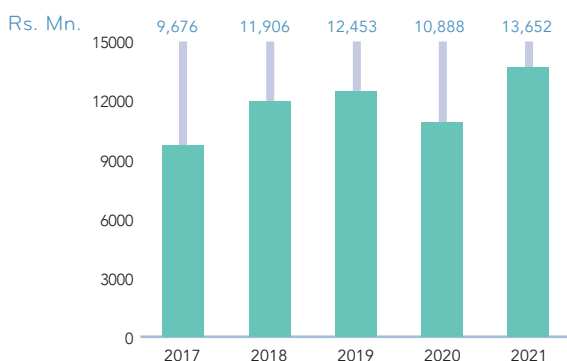
COMPOSITION OF TOTAL INCOME

Item	2021 LKR. 000	2020 LKR. 000	Change
Interest Income	23,545,299	23,182,459	1.57%
Fee and Commission Income	935,136	1,143,098	-18.19%
Other Operating Income	12,332	28,690	-57.02%
Total Income	24,492,767	24,354,247	0.57%

NET INTEREST INCOME (NII)

Net interest income increased by 25.38% in the financial year of 2021, and it increased from LKR. 10,888 Mn. to LKR. 13,652 Mn.

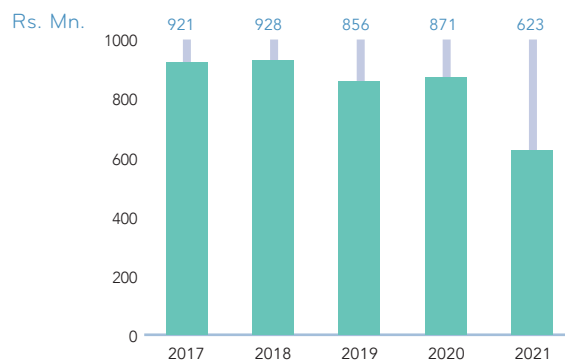
Net Interest Income (NII)



NET FEE AND COMMISSION INCOME

During the financial year 2021, Net Fee and Commission Income decreased by 28.49%. It declined to LKR.623 Mn. with comparing to the results of LKR.871 Mn. in financial year of 2020.

Net Fee & Commission Income



TAXATION

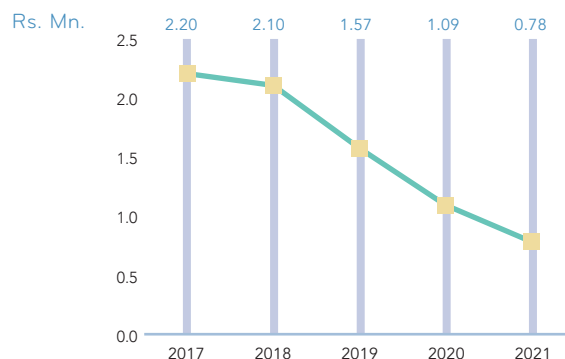
Item	2021 LKR.000	2020 LKR.000	Change
VAT on Financial Services	1,151,277	1,047,411	9.92%
Income Tax	469,201	609,412	-23.01%
Total Tax Expense	1,620,479	1,656,823	-2.19%

During the financial year 2021, the Bank has incurred Value Added Tax on financial, amounting to LKR. 1,151 Mn. and Income Tax amounting to LKR. 469 Mn. A total of LKR. 1,620 Mn. has been incurred the year as taxes.

RETURN ON ASSETS (ROA)

The Bank has recorded ROA (operating profits) of 0.78% for the financial year 2021 despite of 1.09% recorded for the financial year 2020.

Return on Assets (ROA)

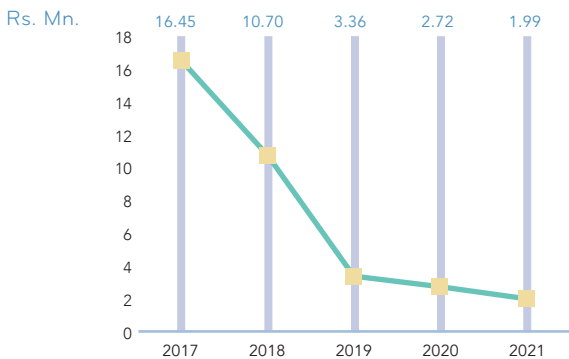


FINANCIAL REVIEW

RETURN ON EQUITY (ROE)

Decrease of the profit after tax by LKR.98 Mn. in financial year 2021, has resulted slight decreasing in ROE from 2.27% to 1.99% compared to the previous year.

Return on Equity (ROE)



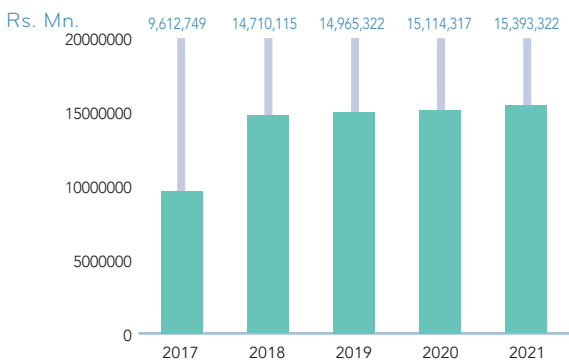
TOTAL ASSETS

The Bank recorded a growth of 11.21% in total assets as at the end of the financial year 2021, over the corresponding year. Accordingly, the total assets base increased from LKR.221 Bn. to LKR.245 Bn. during the financial year.

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity of the Bank arrived in LKR. 15,393 Mn. in the year 2021 against LKR. 15,114 Mn. recorded in the year 2020.

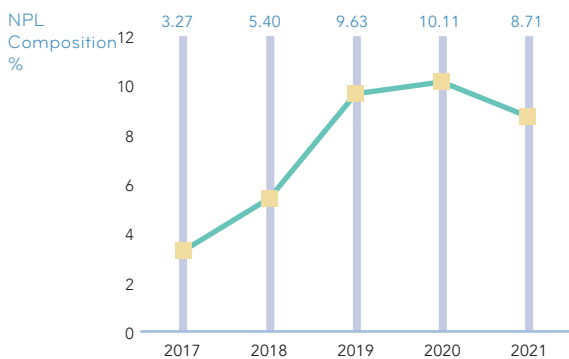
Shareholder's Equity



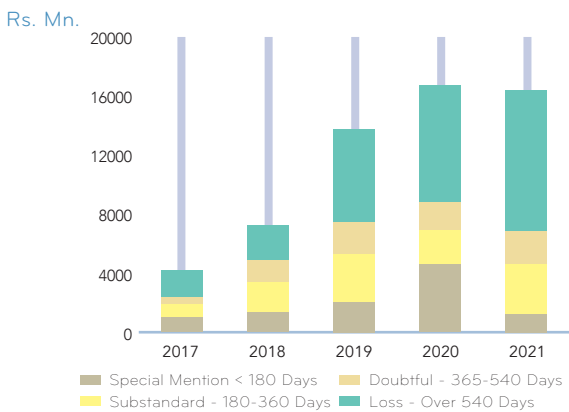
ASSETS QUALITY

Non-Performing Loan ratio (NPL) of the Bank slightly dropped up to 8.71% as of 31 December 2021 irrespective of 10.11% at the end of previous year.

NPL Ratio



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



LIQUIDITY

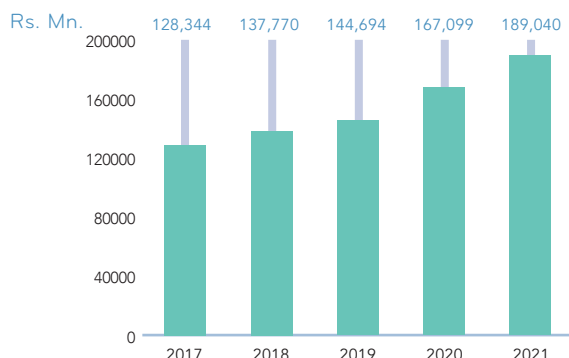
Item	2021	2020
Statutory Liquid Assets Ratio (SLAR)	26.18%	29.30%

The Bank has consistently maintained its liquidity levels well above the regulatory requirements despite of tight situation of the country during the year 2021.

Customer and Relationship Review

LOANS & ADVANCES GROWTH

Loan & Advances Growth

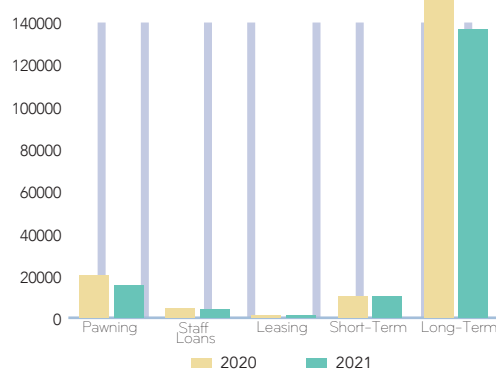


LOANS & ADVANCES PORTFOLIO ANALYSIS – BY PRODUCT

Category	2021 LKR. Mn.	2020 LKR. Mn.
Pawning	20,174	15,432
Staff Loans	4,615	4,123
Leasing	969	961
Short-Term	9,989	10,307
Long-Term	153,292	136,274
Total	189,040	167,099

Loans & Advances portfolio Analysis - By Product

Rs. Mn.

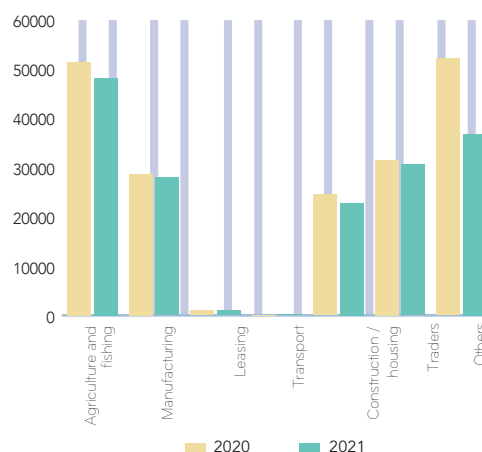


LOANS & ADVANCES PORTFOLIO ANALYSIS – BY INDUSTRY

Category	2021 LKR. Mn.	2020 LKR. Mn.
Agriculture and fishing	51,315	48,067
Manufacturing	28,605	27,926
Leasing	969	961
Transport	78	133
Construction / Housing	24,484	22,716
Traders	31,526	30,585
Consumptions/Against Deposit/Staff/Tourism	52,062	36,710
Total	189,040	167,099

Loans & Advances portfolio Analysis - By Industry

Rs. Mn.



CUSTOMER AND RELATIONSHIP REVIEW

RECOVERIES

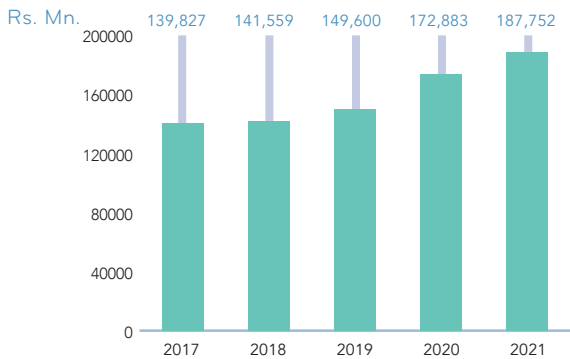
During the year 2021, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio which was around 8.71% of the total portfolio at the end of 2021. As a result of the special efforts made and managing the stress diligently that arisen due to Covid 19 outbreak experienced by many of our customers, the bank managed to maintain the NPL ratio at 8.71% as of 31st December 2021 whilst achieving the slight growing of the credit portfolio.

Non-Performing Category	2021 LKR. Mn.	2020 LKR. Mn.
Special Mention	1,230	4,581
Substandard	3,367	2,300
Doubtful	2,223	1,905
Loss	9,501	7,871
Total Non-Performing	16,322	16,658
NPL Ratio (%)	8.71%	10.11%

DEPOSIT GROWTH

Deposit Base of the Bank increased to LKR. 187 Bn. that represents a 8.6% growth over the previous year. The major contributor to this was savings deposits which grew by 10% whilst fixed deposits which grew by 8%.

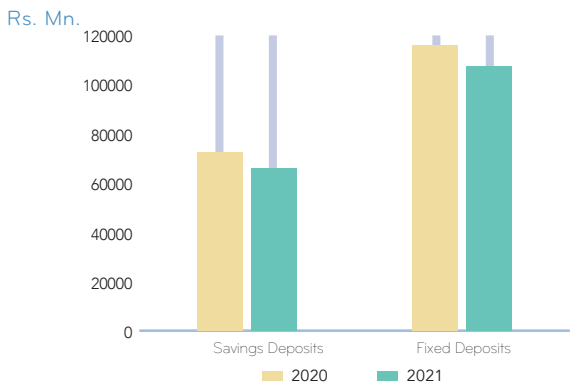
Deposit Growth



DEPOSIT MIX

Type of Deposit	2021 LKR. Mn.	2020 LKR. Mn.
Savings deposits	72,159	65,669
Fixed deposits	115,593	107,213
Total	187,752	172,883

Deposit Mix



CREDIT & RECOVERIES

Credit is the most important function and the instrument used by the Bank in meeting objectives. Credit can be used to stimulate important segments such as agriculture, Small industry, fisheries, Animal Husbandry, Housing and service sectors of the economy thereby enhancing the contributions made by these sectors towards national income. One of the noteworthy features of the Bank is its strong presence in the rural areas, which has been continuing from the inception of Regional Rural Development Banks in 1985.

Hence, The Bank has executed a strategy to meet the given objectives in all activities of the Bank including lending operations. In which terms of the loan facilities were designed to suit the needy sectors by offering concessionary interest rates and conveniently crafted repayment plans with comfortable grace periods on soft security requirements. In addition, the Bank provides credit plus facilities such as Entrepreneurship

development, Training, Advisory support on management and Marketing. Credit plus services also helps to reduce risk of lending and thereby reducing the dependency on collateral for lending.

In addition, under the Credit and Recoveries Department, the Bank operates a strategic Business unit named Bancassurance Unit. The Bank continued to generate fee income by channeling insurance activities relating to the loans granted by the Bank during 2021.

REFINANCE & INTEREST SUBSIDY LOAN SCHEMES

There are several refinance schemes (mentioned below) were held with several institutions named CBSL, Ministry of Finance, Ministry of Agriculture and especially with Asian Development Bank (ADB) for operating very crucial refinance schemes to enhance SME sector.

SAUBHAGYA	SMILE 111 RF	SWASHAKTHI
SMELoC ADD FINANCING PHASE 11,111	SEPI PHASE 11	MORAGAHAKANDA
SMELoCRF	ATHWELA	CBSLSV
PAMP RF	KRUSHI SHAKTHI	NCRCS
KAPRUKA AYOJANA	RSPGLOC	STARR
KAPRUKA JAYAISURA	SAPP 4P Seasonal	Thurunu Diriya

COLLABORATING WITH ADB

There were two programs continued successfully with ADB Named SMELoC additional financing Phase III & Strengthening Regional Development Bank Project (SRDBP).

Under the SRDBP, ADB funded to enhance the SME sector lending by way of SMELoC additional financing Phase III which derives three categories as covid 19 emergency response facility for projects which were affected by the pandemic, Small Tea holder development project and SME sector development project.

RDB LEASING

RDB leasing has been operating quite successfully in 2021. All branches aggressively attended to execute the strategy to enhance the leasing portfolio of the branches very successfully, achieving Leasing Portfolio as at 31.12.2021 is 1,133 Mn.

RECOVERIES

Due to covid 19 Pandemic bank's recovery process was not up to expectations in terms of actual recovery actions. However even under pandemic situation, GOSL (Government of Sri Lanka) & CBSL (Central Bank of Sri Lanka) have implemented credit moratorium programs to customers within and post pandemic situations. Hence, the bank was able to reduce the NPA Ratio to a moderate level.

Information Technology Review

IT ACHIEVEMENTS IN YEAR 2021

Year 2021 was an important year for the Bank in making some strategic decisions on ICT developments as well as system enhancements to improve customer services through the technological advancements. During the year 2021, Bank focused to implement only the most critical and essential IT Systems, despite the challenges due to Covid-19 pandemic situation and the budgetary constraints.

With the Covid 19 restrictions, bank aimed to implement online transaction platforms to ensure customer convenience and safety. Bank has made significant investments to improve current IT infrastructure to cater the proposed online transaction platforms.

During the year, the bank has issued more than 50,000 new EMV chip-based ATM cards to the customers and total active ATM card base has reached to 290,000 cards by the end of the year. In October 2021, Bank has initiated a project with reputed payment switch vendor to enhance the current ATM infrastructure and to issue VISA accredited debit cards. With this initiative, Bank is planning to issue a branded debit card to the customers by June 2022 and to continue existing JCB chip base cards as debit cards as well.

Considering the importance of pursuing digital banking initiatives launched by the Central Bank of Sri Lanka, RDB managed to prepare a Digital Banking Road Map for 2021-2023. This road map will help the bank to identify important digital banking initiatives and to do a quick digital product rollout.

Other major digital initiative of the bank for 2021 was the introduction of QR and Just pay based transaction facility to RDB customers. Bank has completed merchant registration process as the first phase and introduced the QR based payment services to RDB customers during the December 2021. With this initiative RDB merchants can collect online payments directly to their RDB account by presenting the RDB issued QR code. As the 2nd phase of the project bank has joined with Lanka clear Just pay services. With this initiative, bank customers were able to register their RDB account in the reputed mobile payment applications (Mobile apps) and do hassle-free online transactions and bill payments.

To provide an enhanced customer service, bank managed to upgrade its present Core Banking system infrastructure including new hardware and database upgrade during the month of July 2021. After this upgrade bank has managed to complete the first full functional Disaster recovery (DR) Drill during November 2021.

In October 2021, bank has completed the procurement process and selected 'XGen Group' as the vendor to implement 'Loan Origination' (LOS) and 'Collection Management' (CMS) Systems. Implementation of these two systems are expected to be completed by June 2022. With the implementation of LOS system, Bank except to improve the efficiency of loan approval process and provide enhanced customer service with a better experience when applying for a RDB loan facility.

Another major initiative undertaken by the bank is to introduce a common Application Programming Interface (API) to the core banking system. This API platform is based on IBM – ESB architecture and facilitate the ease of deployment when integrating new applications to the current core banking system.

To achieve compliance requirements, bank has completed the procurement process and selected 'KPMG' as a vendor to implement 'Anti Money Laundering System' (AML). The project was kicked off during the December 2021 and scheduled to go live under three phases during the 1st quarter of 2022.

Bank has managed to upgrade IT network infrastructure related components such as Perimeter Firewall, Internal Firewall and new WAN Router implementation for DR center during the year 2021. Procurement process has commenced for the 'SD WAN' network project, Web application Firewall project and New Intercom Solution project. RDB is planning to complete these projects during the year 2022.

According to the IT strategy and the Digital Road map of the bank, RDB has initiated several ICT projects during the year 2021. Most of the IT related Infrastructure upgrade projects were completed during the year while some of the DigiTech projects that were initiated during the year will see full implementation only in year 2022.



Lending success a helping hand

Wherever on the island you are, whatever your talents and abilities, we will always support you. Just as we support every other Sri Lankan, by nurturing the spirit of entrepreneurship and empowering future generations.

RDB Bank

With an island-wide branch network offering a wide variety of services.



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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

Marketing Review

PRODUCTS AND SERVICES



RDB KEKULU – MINOR SAVINGS ACCOUNT

RDB Kekulu account is exclusively designed for children under 14 years of age. This enables every child in our motherland to save with RDB for a bright future. RDB offers a till for every new account as an attraction. Further, there is a wide range of gift items such as exclusively designed stationary packs, school bags, dictionaries, gift vouchers and children's bicycles on offer for balances in the accounts at different levels. In addition, RDB establishes school savings centres to motivate children to practice saving habit from their childhood. RDB offers gifts/ prizes for account holders who obtain best results at the year 5 scholarship examination. Furthermore, educational seminars are arranged for the account holders who sit for said examination.



RDB 4TEEN PLUS

RDB 14+ Account has been specially designed for teenagers of 14 years and above to inculcate saving habits among teenage community. RDB 14+ is operated with value additions that could attract the teenagers. A higher interest rate with the additional bonus interest compared to the growth of the balance in the account is offered by RDB 14+ Account. As an ATM card is issued, the children above 14 have got an opportunity to withdraw money for their financial needs. School children may use this account for their urgent monetary requirements as with every withdrawal by the ATM Card an SMS message is sent to guardian's mobile phone giving withdrawal details. Loan facilities may be obtained by the young community to fulfil their dreams of owning a house, vehicle, furniture, business, buying electronic equipment and accessories, for educational needs, for foreign tours.



RDB LIYA SAVIYA – WOMEN SAVING ACCOUNT

This account was introduced targeting courageous women in Sri Lanka. In addition to the financial facilities, bank provides consultant services for women who contribute to the country's economy through self-employment. The special characteristics in the account are higher rate of interest, bonus interest and advances on competitive interest rates etc. Also special seminars, skill development vocational training programmes and many more regional and national level workshops conduct every year for women entrepreneurs with parallel to International women's day.



RDB LIYA SAVIYA PLUS – WOMEN INVESTMENT SAVING ACCOUNT

RDB Liya Saviya Plus Investment Account is a savings build-up scheme specially designed for women above 18 years of age. The objective of this account is empowering women with a secured medium term investment opportunity and special credit schemes. This is a five year investment plan that offers attractive gifts. Furthermore, the bank was organising the "Best Women Entrepreneur Competition" Island wide and this account holders are entitled to enrol this competition.



RDB VICTORY

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



RDB NEWLIFE PENSION PLAN

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



RDB UTHTHAMA SENIOR CITIZEN'S SAVINGS ACCOUNT

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



RDB INVESTMENT ACCOUNT

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

MARKETING REVIEW

PRODUCTS AND SERVICES



RDB JAYA NIDHANA DEPOSITS CERTIFICATE

This is a product of RDB which attract customers of all economic levels. This is a certificate which gives the face values amounting to Rs.5,000/-, Rs.10,000/-, Rs.25,000/-, Rs.100,000/-, Rs.500,000/- Rs.1,000,000/- at a maturity. Mainly this product aims to enhance the fixed deposit portfolio of the Bank to provide helping hand to development of specially the small scale entrepreneurs in the country. The special feature of this deposit certificate is that it can be renewed at maturity at the prevailing interest rate. RDB Jaya Nidhana certificates can be opened as individually and jointly for personal deposits only.



RDB FIXED DEPOSITS

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



RDB DORIN DORA – CONVENIENT DOOR STEP BANKING SERVICE

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



RDB LEASING

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



RDB RAN SARANA

“RDB Ran Sarana ” is designed to get credit facilities to meet urgent cash requirements against gold. RDB offers highest value for sovereign at lowest interest rate. The flexible repayment terms are available for the facility.

WAREHOUSE FACILITIES

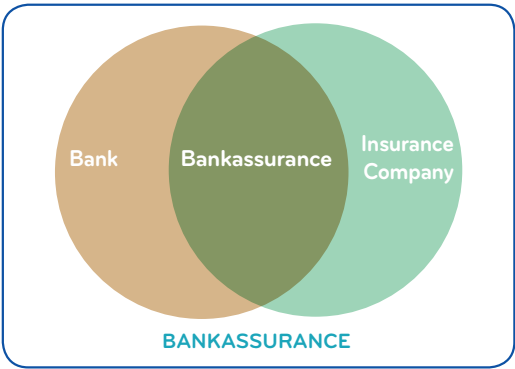
Six warehouses are being managed by RDB in Upuldeniya, Murunkan, Buttala, Kilinochchi, Medirigiriya, Embilipitiya where farmers in the village and nearby areas were given a place to store the harvest at very minimal charge depending on the type of grain. The warehouse is equipped with modern machinery such as driers, boilers, hullers and has a laboratory to check the quality of the harvest.

In addition to providing a safe place for the storage of grains, the Bank helps farmers to sell their harvest at a competitive price. RDB provides financial assistance against to stored produce under the Warehouse Receipt Financing Facility.



RDB BANKASSURANCE

While banking with RDB customers can choose customized insurance products or insurance benefits from wide range of insurance companies through RDB Bankassuarance Unit .



MARKETING REVIEW

PRODUCTS AND SERVICES



ATMS AND CDMS

Since 2015, RDB has taken strategic actions to enable the customers to withdraw money from their accounts using the RDB ATM card through any ATMs that carries the LankaPay logo. As the majority of customers at RDB are made up of rural and semi-urban entrepreneurs and this ATM facility is expected to offer better convenience as well as security. At present Bank has installed 51 RDB ATMs island wide.

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

MOBILE BANKING UNIT

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





UTILITY BILL PAYMENT

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



MONEY TRANSFER SERVICES

 Western Union	<div>WESTERN UNION</div> <div>Money transfers through the Western Union (WU) is another easier and speedy way to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas.</div>
	<div>LANKA MONEY TRANSFER (LMT)</div> <div>Money transfers through the Lanka Money Transfer (LMT) is another easier and speedy way to transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas. All remittances are directly credited to beneficiaries' savings accounts.</div>
<div>SLIPS</div>	<div>SRI LANKA INTERBANK PAYMENT SYSTEM (SLIPS)</div> <div>RDB SLIPS is an interbank electronic fund transfer system that provides the opportunity to transfer funds in the local clearing network in Sri Lanka in a safe and secure manner. SLIPS can be used to transfer funds to any participating bank in Sri Lanka.</div>
<div>CEFTS</div>	<div>COMMON ELECTRONIC FUND TRANSFER SWITCH (CEFTS)</div> <div>Common Electronic Fund Transfer Switch (CEFTS) is a real-time fund transfer system allowing customers to perform domestic interbank fund transfers real-time at their convenience.</div>

MARKETING REVIEW

PRODUCTS AND SERVICES

NEW PRODUCT DEVELOPMENT

RDB QR FACILITY

RDB launched “RDB QR” for Merchants on 15th December 2021 at Panadura Branch. It has been started in Panadura as a pilot project and is expected to be expanded to other areas in near future with sophisticated features to merchants and customers.



“SARU PASA” LOAN SCHEME

RDB launched program to introduce National Level organic fertilizer producers to assist National Poison Free Food and Farming Concept. Under said programme, RDB has introduced special loan scheme “Saru Pasa” for supporting the local organic, fertilizer, pesticides and herbicides manufacturers to start new business or upgrade existing business with the purpose of minimizing outflow of foreign exchange.



“KIRI SHAKTHI” LOAN SCHEME

RDB launched Kiri Shakthi Loan Scheme for the upliftment of small and medium scale dairy farmers. This loan scheme was introduced to increase the milk production of the country through the development of dairy farmers and dairy farms.



RDB MAX FIXED DEPOSIT

RDB introduced “RDB Max” Fixed Deposit in Christmas season with the competitive interest rate to attract new long term deposits with the purpose of increasing the deposit base of the bank.

Society and Environmental Review

CORPORATE SOCIAL RESPONSIBILITY – CSR

FINANCIAL LITERACY PROGRAMME FOR BUSINESS COMMUNITY IN NALLATHANNIYA AREA



The Financial Literacy Program was held in Nallathanniya on the opening day of the Siri Pada season to inculcate savings habits among the shop owners in the area and to manage their cash flow. In addition, created awareness to keep their surroundings clean.

PLANT DISTRIBUTION PROGRAMME IN SINHALA & TAMIL NEW YEAR DAY



All branches of RDB distributed plants in parallel to Sinhala & Tamil new Year on 15th April 2021 to plant trees at auspicious time on 16th April 2021. This helped to raise awareness to the society in the importance of protecting forests and planting trees to save lives.

CSR AT MUHUDUMAHA VIHARAYA



Isuru CSR Foundation of RDB launched several programs at Muhudu Maha Viharaya on 23rd and 24th October 2021 with the participation of management and staff to build a positive image in the community of the Eastern Province. Accordingly, a tree planting program, an alms giving ceremony, the setting up of a Direction Board and the donation of the hand washing place constructed by RDB took place during those two days.

DIRI ABHIMANI PROGRAMME



Diri Abhimani program was conducted to empower women entrepreneurs throughout the island. Under this program, RDB directs women entrepreneurs to achieve their aspirations in the business world through guidance, consulting services and training.

Employee Review

OVERVIEW

Implementation of mission critical HR strategies is very vital in achieving the Banks' business objectives. Hence, HR is committed in ensuring the requirement of ideal human capital and well-being of Banks' employees by applying strategically integrated approach in the talent acquisition, development and engagement through best HR tools, proper policies, practices and processes.

FINANCIAL KPI WITH REGARD TO HR FOR 2017 – 2021

	2017	2018	2019	2020	2021
Total Operating Profit (Rs. Mn.)	3,307	3,606	2,960	3,164	1,926
Total Income (Rs. Mn.)	22,016	26,071	27,508	24,210	24,492
Loan Portfolio (Rs. Mn.)	130,325	137,770	144,694	164,771	189,039
Deposit Portfolio (Rs. Mn.)	139,827	141,560	149,600	169,264	187,752
Total Headcount (FTE)	2,395	2,345	2,735	2,660	2,600
Revenue per FTE	9.19	11.02	10.06	9.10	9.42
Profit per FTE	1.38	1.43	1.08	1.19	0.74
Deposit Portfolio per FTE	57.17	58.82	52.90	61.94	72.21
Loan portfolio per FTE	53.72	57.78	54.70	63.63	72.71

(FTE=Full-Time-Employee)

MANPOWER STRENGTH

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

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

Manpower Type	Headcount	
	2020	2021
Permanent/ contract employees	2660	2600
Door to Door Field Assistants	445	455
Rural Leaders	180	171
Total	3310	3226

EMPLOYEE REVIEW

Headcount distribution by management level is given below.

Management Level	Headcount Distribution	
	2020	2021
Corporate Management	7	7
Senior Management	33	31
Executive Management	154	154
Executives	970	923
Clerical and Allied	1351	1356
Other Grades	145	129
Total	2660	2600

Bank provides equal employment opportunities for both male and female. The gender profile was continued to maintain in 2021 as follows.

Gender	2020		2021	
	Headcount	%	Headcount	%
Male	1489	55.98	1447	55.65
Female	1171	44.02	1153	44.35
Total	2660	100.00	2600	100.00

The employee age and experience profiles of the bank are given below.

AGE PROFILE

Age Category	Headcount	%
Below 21 years	02	0.03
21 – 30 years	344	13.24
31 – 40 years	990	38.09
41 – 50 years	368	14.16
51 – 55 years	600	23.09
Above 55 years	296	11.39
Total	2600	100.00

EXPERIENCE PROFILE

Experience Category	Headcount	%
More than 30 years	357	13.73
20 – 29 years	683	26.27
10 – 19 years	588	22.62
5 – 9 years	506	19.46
Less than 5 years	466	17.92
Total	2600	100.00

CAREER ADVANCEMENT

Bank provides continuous ongoing training to change attitude of staff and impart knowledge and hands on learning experience towards banking operations and better customer service. During the year, 28 programmes were conducted with 715 participants. Total investment for training during the year was Rs. 2.39 Mn.

HR BOARD SUB – COMMITTEES

In terms of the Corporate Governance practices and the Directions of the CBSL, 02 separate sub committees were formed as Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC).

During the year, Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC) were headed by Mr. M. Mahinda Saliya - Chairman

The Board Secretary functions as the Secretary to the committees. Four (04) Board Nominations Committee meetings and Five (05) Board Human Resources and Remuneration Committee meetings were held during the year 2021.

Special Events

NEW SERVICE CENTRE OPENED AT NEW MANNING MARKET COMPLEX, PALIYAGODA



RDB was opened RDB service centre and ATM & CDM Smart Centre in New Manning Market Complex, Paliyagoda to provide banking services to vendors & public. This was ceremonially opened by Hon. State Minister of Samurdhi, Household, Economy, Micro Finance, Self Employment and Business Development Mr. Shehan Semasinghe, Chairman Mr. Mahinda Saliya along with Acting GM/CEO Ms. Damitha Kumari Rathnayake on 15th January 2021.

DEHIATHTHAKANDIYA BRANCH



Dehiaththakandiya Branch renovated to provide more services to customers and ceremonially opened by Hon. State Minister of Samurdhi, Household, Economy, Micro Finance, Self Employment and Business Development Mr. Shehan Semasinghe, Hon. State Minister Wimalaweera Dissanayake, Hon. Member of Parliament Mr. Thilak Rajapaksha and Chairman Mr. Mahinda Saliya along with Acting GM/CEO Ms. Damitha Kumari Rathnayake on 18th October 2021.

LAI D FOUNDATION STONE FOR TANGALLE NEW BRANCH PREMISES AND DISTRICT OFFICE PREMISES.



RDB has laid the foundation stone for Tangalle new branch premises and District Office premises on 7th November 2021 under the patronage of Hon Prime Minister Mr. Mahinda Rajapaksha to provide more convenient services to its customers. Mr. Mahinda Saliya, Chairman, Ms. Damitha Kumari Rathnayake, GM/CEO, Management of the Bank, staff & RDB customers were participated for said occasion.

SABARAGAMUWA PROVINCE OFFICE



Regional Office of Sabaragamuwa moved to more convenient location to provide speedy services to customers and ceremonially opened by Chairman Mr. Mahinda Saliya along with Acting GM/CEO Ms. Damitha Kumari Rathnayake on 2nd August 2021.

SPECIAL EVENTS

BRANCH RELOCATION

RIDEEGAMA BRANCH



Rideegama Branch moved to more convenient location to provide more services to customers and ceremonially opened by Hon. State Minister of Samurdhi, Household, Economy , Micro Finance, Self Employment and Business Development Mr. Shehan Semasinghe, Chairman Mr. Mahinda Saliya along with Acting GM/CEO Ms. Damitha Kumari Rathnayake on 5th March 2021.

HALDUMMULLA BRANCH



Haldummulla Branch moved to more convenient location to provide more services to customers and ceremonially opened by Chairman Mr. Mahinda Saliya along with Acting GM/CEO Ms. Damitha Kumari Rathnayake on 8th November 2021.

Other Events

INTERNATIONAL WOMEN'S DAY PROGRAMME

All RDB branches celebrated the International Women's Day Programme with their women customers. Accordingly, several programmes were carried out to strengthen women entrepreneurs, including granting of financial facilities and training programmes focusing women entrepreneurs .

The Grand Programme was conducted at Randula Grand Venus Hotel, Kadawatha on 8th March 2021 with the participation of the Management, staff and the customers.

In parallel to the Launching of "Diri Abhimani " Women Entrepreneur Competition 2021, following special events held at said occasion.

- Awarded rewards for National Level Winners of the Diri Abhimani 2020 Programme.
- Awareness programmes on entrepreneurship
- Distributed loan facilities among women entrepreneurs



- Launched digital platform "seilama.lk" to facilitate entrepreneurs' buying and selling activities of their products and services.



- Signed MOU with Sri Lanka Social Security Board to provide pension scheme and social security benefits for RDB customers and others who are not entitled for the government pension.



OTHER EVENTS

RDB SIGNED MOU WITH DEPARTMENT OF PENSION ON 1ST FEBRUARY 2021 TO OBTAIN LIFE CERTIFICATE OF PENSIONERS THROUGH RDB BRANCH NET WORK.



LAUNCHED KIRI SHAKTHI LOAN SCHEME AT WARIYAPOLA ON 2ND FEBRUARY 2021.

Launched “Kiri Shakthi Loan scheme” at Wariyapola on 2nd February 2021 to provide financial assistance for dairy farmers under the theme of “Kiren Sapiri Deyak” with the association of the State Ministry of Livestock & Farm Promotion and Diary & Eggs Related Industries.



OPENED INCUBATION & INTERNSHIP CENTRE AT FACULTY OF COMMERCE & MANAGEMENT OF KELANIYA ON 4TH MARCH 2021.



‘පැයෙන් පැයට බඩු මල්ල’ Programme in Sinhala & Tamil New Year



All RDB branches conducted ‘පැයෙන් පැයට බඩු මල්ල’ programme to distribute bag full of daily essentials to winners on 15th April 2021 in parallel to Sinhala & Tamil New Year.

SAUBHAGYA SATHIYA PROGRAMMES

As per the direction of State Ministry of Samurdhi, Household, Economy , Micro Finance, Self Employment and Business Development, RDB Conducted four Saubhagya Sathiya Programmes through all RDB branches to facilitate Micro, Small & Medium Scale Entrepreneurs.



MOBILE BANKING SERVICE

RDB mobile banking unit provided banking facilities for isolated people during the COVID 19 Pandemic period.



Launched "සිත්තම් පැමිණ" Art Competition for minors to inculcate savings habits and creativity skills among minors in parallel to International Children's Day. The competition is conducting during the period of October, November & December 2021.



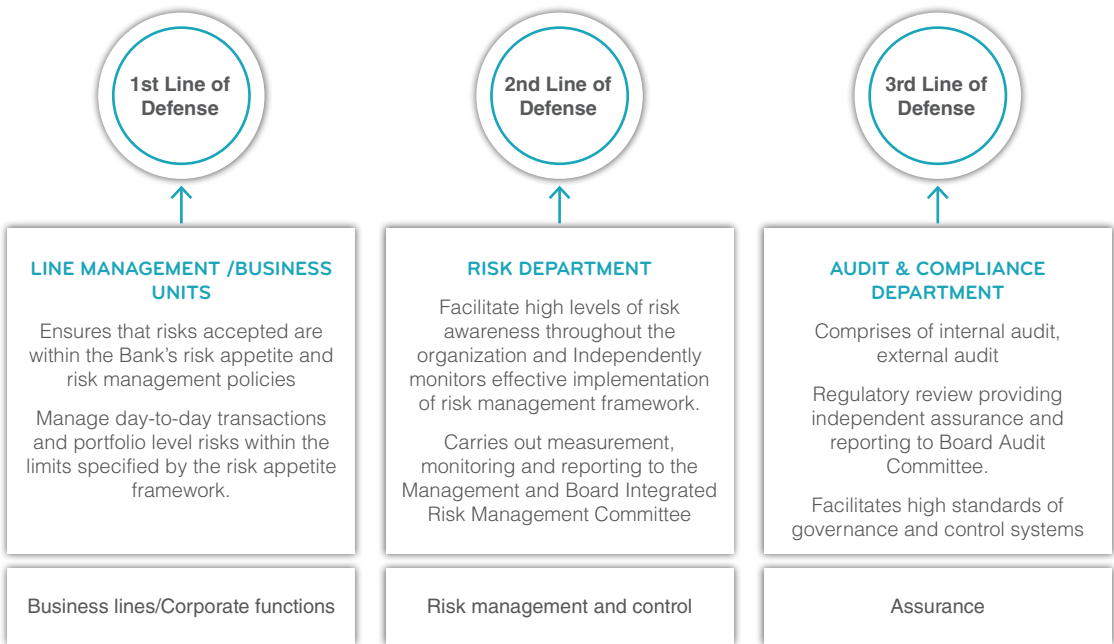
Risk Management

The COVID-19 pandemic made the year 2021 unprecedented in the recent history with a vast majority of the individuals, communities and organizations being severely affected in terms of their lives and livelihoods. Covid-19, which materially impacted almost all the main risk categories of the Bank, elevated the risk profile of the Bank, that it has a robust risk governance framework and a rigorous risk management function to manage the associated risks, enabling it to optimize the trade-off between risk and return, and continue to create value sustainably into the future.

Deteriorating economic activity and less favourable economic outlook exerted immense pressure on certain industries, affected asset quality, and reduced demand for banking products and services. Still evolving nature of the pandemic and the continuing uncertainty surrounding it elevated the risk profiles of the financial institutions, requiring them to remain extra vigilant.

As a result of the Bank having formulated its risk management strategy in terms of the underlying risk governance and risk management framework by taking the context and outlook into account, the Bank was able to take timely measures to minimize the impact of Covid-19 on its day-to-day operations, continue to service the customer with minimal disruptions and maintain asset quality and viability of its operations.

APPROACH TO RISK MANAGEMENT THREE LINES OF DEFENSE MODEL



RISK MANAGEMENT FRAMEWORK

OBJECTIVES

The primary objectives of the Bank's risk governance framework and the risk management function are

- Ensures that risks accepted are within the Bank's risk appetite and risk management profile.
- Facilitate high levels of risk awareness throughout the organization and Independently monitors effective implementation of risk management framework.
- Establish the necessary organizational culture for the management and oversight of risk embodying values, beliefs, attitudes, and practices that drive highly effective risk decisions;
- To define the desired risk profile in terms of risk appetite and risk tolerance levels
- Establish functional responsibility for decisions relating to accepting, transferring, mitigating and minimizing risks, and recommending the best ways of doing so
- Evaluate the risk profile against the approved risk appetite on an ongoing basis.
- Estimate potential losses that could arise from risk exposures assumed, focus on close monitoring and followup of the internal controls, stress testing on risk arrears.
- To periodically conduct stress testing to ensure that the Bank holds sufficient buffers of liquidity and capital to honour contractual obligations and meet unexpected losses;

RISK GOVERNANCE

Risk Governance structure of Regional Development Bank starts from the Board of Directors and drill down to the Branch level through risk management policies, procedures, committees, and delegated authority levels. Board of directors of the Bank has the final responsibility in governing the risk of the overall bank.

The Board has set up the following four Board committees to assist it in discharging its oversight responsibilities for risk management and for ensuring adequacy and effectiveness of internal control systems.

- Board Integrated Risk Management Committee (BIRMC)
- Board Audit Committee (BAC)
- Board Human Resources Committee (BHRC)
- Board Nomination Committee (BNC)

The Board Integrated Risk Management Committee (BIRMC) is chaired by the executive director and supported to make decisions on Bank risk management framework. The committee given recommendation on bank overall risk profile and recommended the risk management policies, procedures, and Internal Capital Adequacy Assessment Process (ICAAP) of the Bank. Policies procedures and the ICAAP are formulated, reviewed, and presented to the BIRMC by the CRO and his division in periodic manner.

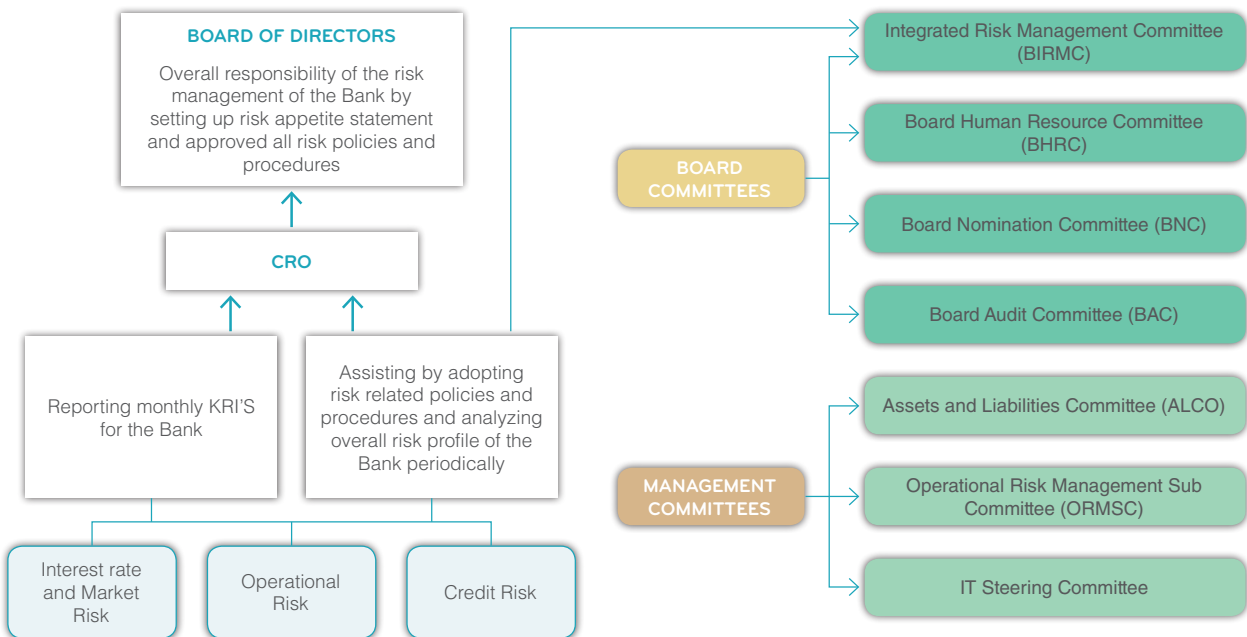
The Board Audit committee (BAC) examines the internal control and regulatory compliance of the Bank on behalf of the Board of RDB. The committee also accesses the performance, accuracy and independence of the internal audit of the Bank.

Board Human Resources Committee (BHRC) which is headed by the Head of Human Resources is responsible for creating and/or monitoring values-based systems and policies to ensure that the organization is following local, state and federal laws and certain best practices relating to its employees and creating an attractive environment for current and prospective employees. The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to executive directors and senior management and the employees.

Board Nomination Committee (BNC) the committee has been implemented a formal and transparent procedure to select/appoint new directors and senior management. Senior management are to be appointed with the recommendation of CEO, excluding CIA,CRO and compliance officer.

Risk Management Department (RMD) which is headed by the CRO has three separate functions of risk management namely credit risk, operation risk and market & interest rate risk. Risk Management Department periodically review and make recommendations to the Board on risk appetite, risk profile, strategy, risk management and internal controls framework, risk policies, limits and delegated authority.

RISK GOVERNANCE STRUCTURE



RISK MANAGEMENT

OVERVIEW ON KEY RISK FACTORS AND GOVERNANCE STRUCTURE OF RDB

Risk Management Department led by the Bank's Chief Risk Officer, and it is independently assures that the Bank's risk parameters are maintained within the risk appetite approved by the Board of Directors. The BIRMC is responsible for multiple aspects of the Bank's risk management framework.

Risk Management Department adopts an array of tools and techniques to measure its key risk exposures as listed below,

Credit Risk	The standardized approach is used to calculate credit risk capital charged.
Market Risk	The standardized measurement approach is used to calculate Market risk capital charged.
Operational Risk	Basic indicator approach is used to calculate operational risk capital charged.
Credit concentration Risk	Herfindahl - Hirschman Index (HHI)
Interest rate Risk	Sensitivity gap analysis based on stress testing.
Foreign Exchange Risk	The Net Open Position (NOP) of the Bank is measured by aggregating the sum of Net Short Positions or the sum of Net Long Positions.
Liquidity Risk	Stock approach -Measures liquidity position through liquidity ratios.
	Flow approach - Assessment of projected inflows and outflows in time buckets.
	Stress testing on Liquidity Ratios.

RISK UNIVERSE

The graphical presentation of Bank's key risk exposures during the year under review are demonstrated below,



The list of risks, the Bank faces and how the Bank systematically managed the risk in an on going basis is illustrated below,

CREDIT RISK

RDB being a development bank, credit is the major business line of the bank. The total credit exposure of RDB is 74% of its total assets. Extending credit is the major business line of the Bank and as a result, credit risk is the most significant type of risk that is being managed. Therefore, the Bank has placed a considerable weightage on credit risk management process. The Credit Risk Management policy of RDB is the main guideline for Credit risk management which is approved by the Board and reviewed annually which contains all policies and procedures and methods to identify, manage and mitigate the credit risk.

The credit risk management framework of the Bank is consist of following major functions and it immensely contributed to the Bank's credit portfolio risk management

Pre-credit sanctioning	Delegated levels of approval authority	credit proposals are analyzed by experienced credit officers and handed over to the relevant approval authority level. However, high value credit proposals are approved by the Credit Committee and the Board of Directors.
	Independent review by Chief Risk Officer (CRO)	Limits for credit risk categories such as Security risk, , financial risk, management risk, project risk, market risk and borrower rating models
	Risk Rating	The Bank has introduced the customer rating based on bank specific format since August 2016. Customers are rated as AAA, AA, A and BBB. According to the directions given in the circular customer who has bellow BBB rating is not eligible for a credit facility from the Bank.
	Risk based pricing	The Bank has adjusted the price of the facility based on the customer risk rating. This pricing system is applied to facilities considered under Bank funds only and other facilities considered under refinance schemes are exempted from the risk-based pricing.

Post credit sanctioning	Credit Administration Unit	In view of increasing administration process of the credit portfolio, in March 2016 the Bank established the Credit Administration Unit which is currently headed by an Deputy General Manager.
	Ongoing and robust credit review	
	Loan Review Mechanism (LRM)	Since 2017, RDB has established a comprehensive LRM to maintain quality loan portfolio. Loan review Policy of RDB establish a common framework for Loan Review mechanism to improve qualitative and quantitative credit administration. The review should cover all performing loans above the threshold limit, which should be more than 40 % of the loan portfolio of the Bank. The threshold limit should be decided/approved by the Board of Directors with the recommendation of the Integrated Risk Management Committee (IRMC).
	Portfolio evaluation Loan review mechanism under credit quality assurance	
	Monitoring watch list exposure	Proactive engagement with customers in identifying requirements, stresses. Stress testing and scenario analyses.

LOAN LOSS PROVISIONING (IMPAIRMENT PROVISIONS AND CBSL PROVISION)

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

- Individual Impairment
- Collective Impairment

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

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

RISK MANAGEMENT

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

SLFR 9 IMPLEMENTATION

Bank Implemented SLFR 9 effect from January 2018. This provisioning method to be based on forward looking on incurred credit loss using exposure at default (EAD), probability of default (PD), Loss given default on Stage-1, Stage-2 and Stage-3 Loans.

SECTORIAL LIMITS AND MANAGING CONCENTRATION RISK

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

CREDIT RISK MANAGEMENT IN 2021

In year 2021 Regional Development Bank consistently monitored all borrowings through close customer engagement, offering flexible repayment schemes and restructuring of facilities for affected customers .

Risk Management Department analyses the credit portfolio of the Bank and reports to the Board of Directors under the KRI (Key Risk Indicator) Report with independent observations monthly. The KRI Report includes total Credit Portfolio Analysis, NPA Analysis, Loan Provisioning Analysis, Deposit portfolio Analysis and Liquidity Risk Analysis etc. Risk Management Division closely monitors the watch listing customer based on monthly basis and report to the Board of directors.

Main focus area for the year 2021 was on the deteriorated credit quality level of the industry amidst economic challenges that the country is facing due to the COVID-19 global pandemic situation. Deliberations on sectors affected and the factors that are within the control of the Bank to mitigate the risks were given due consideration with a view to arresting deterioration of credit quality.

Continuous follow up of facilities that were subjected to moratoriums, recovery initiatives such as offering incentives and elevated levels of attention given to loan approvals and post-sanction monitoring and recovery efforts together with planned implementation of early identification of stressed borrowers will assist the Bank to minimize potential credit risk.

LIQUIDITY RISK

It is the risk that a Bank encounters difficulty in meeting its financial commitments that are settled by delivering cash or other financial assets. The Bank has always complied with Bank Liquidity Management Framework and CBSL guidelines on Bank liquidity. To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities on an ongoing basis.

The Bank manages liquidity risk through policies and procedures, measurement approaches, mitigation measures, stress testing methodologies and contingency funding arrangements.

The ALCO holds responsibility for managing liquidity risks and consistently monitors the Bank's liquidity position to ensure compliance to regulatory requirements and internal targets. Reporting requirements including regular updates to the BIRMC and the Board, which enables the Board to ensure that liquidity indicators are maintained

LIQUIDITY RISK MANAGEMENT IN 2021

Following monitoring mechanism and approaches are used by Risk Management Department of RDB to manage and monitor its liquidity.

- Policies such as Liquidity Risk Management Policy and Asset Liability Management Policy, provide guidance on the mechanisms, tools and stress testing methodologies that are to be adopted in managing liquidity risk exposures.
- Stock approach - Measures liquidity position through liquidity ratios.
- Flow approach - Assessment of projected inflows and outflows in time buckets.
- Contingency fund - A contingency fund is available to ensure smooth continuity of operations in the event of liquidity stress

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

All liquidity indicators were maintained comfortably with the parameters and limits defined by the Liquidity policy and in compliance with all relevant regulatory requirements.

	31st December 2020	31st December 2021
Loans to deposit ratio	97.35%	101.65%
Statutory liquid asset ratio	29.30%	26.18%
Liquidity Coverage Ratio	145.71%	174.36%
Total loans to total assets	70.65%	75.86%

MATURITY GAP ANALYSIS

Maturity analysis of financial assets and liabilities of the Bank indicates sufficient funding for foreseeable adverse situations based on prescribed behavioural patterns observed. Maturity analysis of financial assets and financial liabilities of the Bank does not indicate any adverse situation based on historical behavioural patterns.

OPERATIONAL RISK

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people and systems, or from external events such as natural disasters, social or political events. It is inherent in all banking products and processes and the Bank's objective is to control it in a cost-effective manner.

The Bank today has 272 branches covering entire country with more than 2,600 staff members and well standard technical solutions (CORE Banking system, ATM and CDM and Human Resource System) for supportive services.

RDB has established a comprehensive risk operational risk management policy in 2013 and approved by the Board of directors. This is main guidance for the Bank operational risk management of the bank, and it is periodically review. The Bank manages operational risk through policies, risk assessment, risk mitigation including insurance coverage, procedures relating to outsourcing of business activities, managing technology risk, a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP), creating a culture of risk awareness across the Bank, stress testing and monitoring and reporting.

OPERATIONAL RISK MANAGEMENT IN 2021

Despite the conditions that prevailed due to pandemic situation and the dramatic shift to new ways of working such as work from home the Bank successfully maintained operational risk parameters within the limits prescribed. During the year 2021, operational risk categorised under regulatory breaches, Delivery and Process Management, Complain over branch operations, Network down time and Internal loss data events where as the BIRMC and the Board is regularly updated. The losses for the year were primarily driven by a limited number of events in these categories and all of which the Bank managed to resolve through subsequent recovery/rectification with minimum financial impact to the Bank.

TECHNOLOGY AND CYBER SECURITY RISKS

IT and cyber security risk are major component of operational risk comprising IT-related events such as system interruptions/failures, errors, frauds through system manipulations, cyber attacks, obsolescence in applications etc., that could potentially affect the whole business.

Managing IT risk poses challenges and therefore, the Bank has accorded top priority to addressing IT risk, giving more focus to cyber security strategies and continually investing on improving the cyber security capabilities. IT risk is managed through the Information security management framework approved by the Board, which comprises a robust risk governance structure, Information security management policy and acceptable usage policy.

RDB is on a centralized IT solution at present and provide digital banking options to their customer segments. Since 2015, RDB has facilitated ATM networks for the customers all over the country connected with the Lanka Pay network and its own ATM centers. Currently RDB has facilitated their customers through Customer Depository Machines as well (CDM). Further, the Bank has following operating systems that has been outsourced at present,

- Door to door deposit application
- QR based transaction facility
- Cash deposit Machine (CDM) switch solution
- SMS gateway Solution
- Human resources management system to manage their employee data base and payroll.

RISK MANAGEMENT

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

The security aspects are covered by the annual vulnerability assessment & penetration test. Further the policies and procedures relating to outsourcing of business activities of the Bank ensure that all significant risks arising from outsourcing arrangements of the Bank are identified and effectively managed on a continuous basis. Due diligence tests on outsourced vendors are carried out by respective risk owners prior to executing new agreements and renewal of existing agreements.

MARKET RISK

Risk of loss arising from movements in market driven variables such as changes in earnings, or future cash flows of a portfolio of financial instruments result from adverse movements in market variables such as interest rates, foreign exchange rates, share prices and commodity prices.

INTEREST RATE RISK

Extreme movements in interest rates expose of the Bank to fluctuations in Net Interest Income (NII) and have the potential to impact the underlying value of interest-earning assets and interest-bearing liabilities and off-balance sheet items.

FOREIGN EXCHANGE RISK

The possibility that RDB may incur losses due to currency fluctuations. The said risk arises due to mismatches in Assets and Liabilities in specific Foreign Currencies. Moreover, this could also arise due to fluctuations of net exposures values with exchange rate movements, adversely impact on bank at large scale due to loan funds granted by Asian Development Bank.

MARKET RISK MANAGEMENT IN 2021

Market risk is managed through the market risk management framework approved by the Board, which comprises a robust risk governance structure and newly introduced policies on Interest rate risk Management policy, Foreign Exchange risk management policy, ALCO statements.

According to the Interest Rate Risk Management Policy approved by the Board, ALCO is responsible to determine the interest rates based on gap and duration analysis

of the Bank. Based on this analysis, Risk Management Department will carry out risk assessment on the interest rate fluctuations and foreign currency fluctuations.

At present ALCO determines interest rates for both lending and deposits based on the market conditions and credit deposit ratio.

Following monitoring mechanism and approaches are used by Risk Management Department of RDB to manage and monitor its Market risk.

Interest rate risk - The Maturity gap report is prepared by stratifying Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL) into various time bands according to maturity. Balances of savings deposits are distributed in line with the findings of a behavioural analysis conducted by the Bank.

Foreign Exchange Risk - Risk Management Department has implemented the "Stress Testing Template" to measure the impact of Stress scenarios in FX. The Net Open Position (NOP) of the Bank is measured by aggregating the sum of Net Short Positions or the sum of Net Long Positions. The bank will then stress its Net Open Position and capital charge based on the stress scenarios specified.

COMPLIANCE RISK MANAGEMENT

Compliance and regulatory risk is directly resulted from non-compliance with applicable laws and regulations, directions, policies, codes of conducts and standards of practice in the banking industry. The Management of the Bank places great emphasis on ensuring that the Bank is moving in concurrence with its statute and the rules and regulations imposed by the regulatory authority as well as the other legal/government entities in order to avoid failures or breaches of such obligations towards the Bank.

The key objectives of the Compliance Officer are to ensure the internal controls/regulatory requirements are complied with. The Bank's compliance function falls under the purview of the BIRMC headed by AGM Compliance. In order to achieve this objective, she monitors and assesses the compliance requirements and submits quarterly reports on the compliance status of the Bank to the BIRMC for review. The Compliance Officer also overlooks the timely submission of necessary statutory reports of the Bank to the regulator.

Bank Compliance policy framework includes the Board approved Compliance Policy, AML Policy, Related Party Transactions Review Policy and Compliance Manual which specify on how the compliance risk is managed by the Bank.

COMPLIANCE RISK MANAGEMENT IN THE YEAR 2021

Following actions have been taken to minimize the compliance and regulatory risk of the Bank

- Ensure timely review of applicable policies and procedures.
- Adopt Money Laundering (ML)/Terrorist Financing (TF) risk assessment within the Bank.
- Conduct compliance assessments on branches, divisions and products of the Bank
- Creating awareness through training sessions
- Assessing and monitoring of supervisory concerns

CAPITAL MANAGEMENT

The Bank requires a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors/creditors, maintain leeway for future business expansion and generate adequate return to its shareholders. Hence, the Bank strives to manage capital more efficiently by achieving the optimum balance between performance risk and conduct stringent monitoring of the Risk Weighted Asset (RWA) mix and changes in the risk profile. The capital to risk weighted assets ratio promotes financial stability and efficiency of the Bank.

Time to time RDB has revised its capital augmentation plan to have a proactive capital management to comply with the regulatory requirement. Capital management process is in line with the guidelines issued by the CBSL. As per the Banking Act Directions No. 11 of 2019 and amendments to Directions on Capital Requirements under Basel III for Licensed Commercial Banks and Licensed Specialized Banks, it is required to maintain the minimum capital ratios as prescribed in the below table.

	Regulatory requirement	Actual as at 2020-Dec	Actual as at 2021-Dec
Tier 1 Capital	8.50%	10.30%	8.72%
Total Capital	12.50%	14.84%	14.27%

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The ICAAP comprises risk appetite, stress testing and capital planning concepts along with a sound risk management framework to capture all material risks. ICAAP framework, the Bank used internal models to assess and quantify the risk profile, to stress test risk drivers and to assess capital requirements to support them. This enables combining the business performance, risk management actions and risk sensitive capital.

Comprehensively documented ICAAP is discussed and approved by ALCO and the Board through BIRMC prior to submitting to the regulator. The process involves Board and Senior Management Oversight, Sound Capital Assessment and Planning, Comprehensive Assessment of Risks, Stress Testing, Monitoring, Reporting, Internal Control Review and thereby ensuring that adequate capital is maintained to deliver its strategic agenda.

The ICAAP helps the Bank to periodically evaluate the capital requirements for the next five years, develop capital augmentation plans based thereon and submit same for review by the CBSL.

The Bank is comfortable with the available capital buffer to support its growth plans/withstand stressed market conditions.

STRESS TESTING

Stress Testing is an integral part of ICAAP under Pillar II. Stress testing is an important element of Supervisory Review and showcases the sensitivity of the Bank's risk profile to a range of variables. The Bank's stress testing framework is governed by the Board approved Stress Testing Policy and guidelines approved by the Board. Stress testing provides understanding on ability of the Bank to withstand unforeseen scenarios of varying severity under adverse economic, political and physical changes in the environment in which it operates.

Giving due consideration on the economic downturn due to COVID-19 pandemic, we strengthened our stress testing mechanism through the following,

- The Bank's stress testing framework includes stress tests on all the material risks such as credit risk, interest rate risk, operational risk, liquidity risk and Foreign Exchange risk.
- Carrying out the stress testing by including possible new scenarios based on business line and risk type levels.
- The bank stress its Net Open Position and capital charge based on the stress scenarios specified to assess the Foreign Exchange risk.
- Banks have implemented liquidity stress testing models using assumptions for inflows and outflows related to existing sources of funding that may likely be impacted during periods of market and firm-specific liquidity stress.
- Created new scenarios to stress test the Liquidity Coverage Ratio (LCR), Statutory liquid asset ratio (LAR), Capital Adequacy Ratio (CAR) in line with impact on adverse market condition.

Corporate Governance





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Auditor General's Report on Corporate Governance



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

BAN/E/RDB/CG/2021

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

09 September 2022

The Chairman,
Pradeshiya Sanwardana Bank.

AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS OF PRADESHIYA SANWARDANA BANK
ON THE COMPLIANCE REQUIREMENT OF THE CORPORATE GOVERNANCE DIRECTIVE ISSUED BY
THE CENTRAL BANK OF SRI LANKA -31 DECEMBER 2021

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

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

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

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

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

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

W.P.C. Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, මිත්තංගුල්ල, ශ්‍රී ලංකාව



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Corporate Governance

ANNEXURE TO THE REPORT ON FACTUAL FINDINGS

Section	Principle	Level of Compliance during the year 2021
3(1)	The Responsibilities of the Board	
3(1)(i)	Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the bank.	
	a) The Board approval, the bank's strategic objectives and corporate values.	Board approved Corporate Plan which is prepared for 2022-2024 is in place. In addition, Bank's Strategic objectives are embedded within the annual budget which is implemented annually. Those consisted with strategic objectives and corporate values of the Bank. However, goals and targets of the year 2021 was implemented from the annual budget since the Corporate Plan was not prepared.
	Whether the Bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Strategic objectives and corporate values of the bank have already been communicated to all KMP's and will be communicated to other staff through awareness meetings at Head office level as well as Provincial level.
	b) The board approval of the overall business strategy of the bank.	The board approved Corporate Plan (2022-2024) includes the overall business strategy of the Bank.
	The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Overall risk policy and risk management procedures have been prepared and approved by the Board with the recommendation of the Board Integrated Risk Management Committee and it is being reviewed periodically.
	The overall business strategy contains measurable goals, for at least the next three years.	Measurable goals of the Corporate Plan are forecasted up to FY 2024.
	c) The appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	Complied with. The Board approved Integrated Risk Management Policies and procedures include continuous and prudent assessment process. Further it is reviewed by the Board Integrated Risk Management Committee (BIRMC). The following reports also provide further details in this regard: <ul style="list-style-type: none"> ● Risk Management Report ● Integrated Risk Management Committee Report

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
	d) The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders, and borrowers;	<p>Complied with.</p> <p>A Board approved communication policy is in place, and it includes communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</p> <p>However, communication policy needs to be reviewed as mentioned in the policy document.</p>
	e) The Board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	<p>Complied with.</p> <p>All Key Management personnel especially with DGM-Operation are responsible for the establishing and updating of internal control system of the Bank.</p> <p>Also, Internal Audit Department reviews the adequacy and integrity of the internal control system and management information system of the Bank. However, this process needs to be further strengthened. Further, Internal audit reports are submitted to the Board Audit Committee (BAC) and major findings are submitted to the board.</p>
	f) The Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	<p>Complied with.</p> <p>The Board has identified and designated Key Management Personnel of the Bank.</p>
	g) The Board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	<p>Complied with.</p> <p>Board Charter defines the areas of authority and key responsibilities for the Board of Directors and General Manager/CEO.</p> <p>A Board approved Board Charter is in place.</p> <p>The areas of authority and key responsibilities of the Key Management Personnel have been documented in relevant Job Descriptions.</p>

Section	Principle	Level of Compliance during the year 2021
	h) The Board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	<p>Complied with.</p> <p>The Board exercise appropriate oversight of the affairs of the Bank through Board and Board Subcommittees.</p> <p>Members of the Management Team are invited for Board meetings to provide additional clarifications if required.</p>
	<p>i) The Board has periodically assessed the effectiveness of the board directors' own governance practices, including:</p> <p>(i) The selection, nomination and election of directors and key management personnel.</p> <p>(ii) The management of conflicts of interests; and</p> <p>(iii) The determination of weaknesses and implementation of changes where necessary.</p>	<p>Complied with.</p> <p>The Board has assessed their effectiveness at the Board Meeting.</p>
	j) The Board has a succession plan for key management personnel.	Board approved Succession Plan is in place which was reviewed in year 2021. However, it had been updated with the views of the Board and need to be re-submitted to the Board with the recommendation of Board Nomination Committee.
	k) The Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	<p>Complied with.</p> <p>The Board conducts meetings regularly to discuss and review the progress of corporate objectives and invite key management personnel for further information and advice.</p>
	l) The Board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	<p>Complied with.</p> <p>The Board has taken measures and processes to understand the regulatory environment and maintain relationship with regulators.</p>
	m) The Board has a process in place for hiring and oversight of external auditors.	<p>Not Applicable.</p> <p>Under section 33 of the Pradeshiya Sanwardhana Bank Act, Auditor General is the external auditor of the Bank.</p>

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3(l)(ii)	<p>The Board has appointed the Chairman and the Chief Executive Officer (CEO).</p> <p>The functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.</p>	<p>The Board shall appoint a General Manager/ CEO of the bank. However, Acting General Manager who served up to 31.01.2022 had been appointed by the Secretary of Ministry of Finance in year 2020.</p> <p>Accordingly, Board has appointed permanent General Manager/CEO as per PSB Act with effect from 01.02.2022 after taking several attempts.</p> <p>Complied with.</p> <p>The Chairman has been appointed in terms of the provisions of PSB Act by the Hon. Minister in charge of PSB.</p> <p>The chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business. However, Chairman involves in the signing of agreements, bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018 which is in line with the section 3 of the PSB Act.</p>
3(l)(iii)	The Board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	<p>Complied with.</p> <p>Generally, the Board meetings are held monthly. Also, special meetings are conducted additionally as and when necessary. 12 meetings have been held during the year 2021.</p>
3(l)(iv)	The board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	<p>Complied with.</p> <p>Regular Board Meetings are scheduled, and the Board is informed at the beginning of each calendar year to enable submission of matters and proposals to the agenda for regular Board meetings.</p>

Section	Principle	Level of Compliance during the year 2021
3(l)(v)	That the Board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. And for all other board meetings, notice has been given.	<p>Complied with.</p> <p>Notice of meetings are given through an Annual Calendar at the beginning of the year.</p> <p>Agenda and Board papers for the Board and Subcommittee meetings are circulated to the Directors seven days prior to the meetings through a secure e-Solution (Upload to the Board Pac) except for urgent papers that may come up.</p> <p>Reasonable notice is given before any special meeting and consent of all Directors are obtained prior to scheduling a special meeting.</p>
3(l)(vi)	The Board has taken required action on directors who have not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held. Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance.	<p>Complied with.</p> <p>There were no occasions of nonattendance of more than two third of Board meetings or immediately preceding three consecutive meetings.</p>
3(l)(vii)	The Board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	<p>Complied with.</p> <p>A Board Secretary has been appointed by the Board as defined by Sec.43 of the Banking Act No.30 of 1988 and as per the section 19 of the Pradeshiya Sanwardhana Bank Act. The secretary shall be an officer on fulltime basis.</p>
3(l)(viii)	The process to enable all directors to have access to advice and services of the company secretary.	<p>Complied with.</p> <p>All Directors have access to advice and service of the Board secretary.</p>
3(l)(ix)	The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	<p>Complied with.</p> <p>The Board Secretary maintains minutes of Board meetings. Further such minutes are available for inspection to any Director on request.</p>

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3(l)(x)	<p>The minutes of a board meeting contain or refer to the following:</p> <p>(a) a summary of data and information used by the board in its deliberations</p> <p>(b) the matters considered by the board</p> <p>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence.</p> <p>(d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations.</p> <p>(e) the understanding of the risks to which the bank is exposed, and an overview of the risk management measures adopted; and</p> <p>(f) the decisions and board resolutions.</p>	<p>Complied with.</p> <p>Board Minutes will cover the following requirements,</p> <p>I. Business decisions taken on particular subjects.</p> <p>II. Resolutions passed on special subjects.</p> <p>III. Instructions and matters directed to management.</p> <p>IV. Policy decisions on matters and review of performances.</p> <p>V. Recommendations on Board Sub-Committee reports.</p> <p>VI. Overview of the risk management measures.</p> <p>VII Compliance with the board's strategies and policies.</p>
3(l)(xi)	<p>There are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.</p>	<p>Complied with.</p> <p>The Board approved procedure to seek independent professional advice is available.</p>
3(l)(xii)	<p>There is a procedure to determine, report, resolve and to take appropriate action relating to directors avoids conflicts of interests, or the appearance of conflicts of interest.</p> <p>A Director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.</p> <p>Has he/she been counted in the quorum for the relevant agenda item at the board meeting.</p>	<p>Complied with.</p> <p>When a resolution is passed at the Board meetings regarding a particular matter on which directors are personally interested, he/she abstains from voting for the resolution.</p> <p>The director with personal interest on any matter is not count in the quorum for the relevant agenda item at the board meeting. However, no such instances have been occurred during the year.</p>
3(l)(xiii)	<p>The Board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.</p>	<p>Complied with.</p> <p>Powers reserved for the Board are included in the Board Charter.</p>

Section	Principle	Level of Compliance during the year 2021
3(l)(xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Not Applicable. Although, such a situation has not arisen, the Board is aware of the necessity to inform the Director of Bank Supervision, prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payment to its depositors and other creditors.
3(l)(xv)	The Board has the bank capitalized at levels as required by the Monetary board.	Complied with. Bank has maintained the capital adequacy ratio as determined by the monetary board.
3(l)(xvi)	The board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with. The Annual Report includes the Corporate Governance Report setting out the compliance requirement with the corporate governance direction issued by the Central Bank of Sri Lanka.
3(l)(xvii)	The board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.	Complied with. Self-Assessment forms of Board of Directors are available.
3(2)	The Board's Composition	
3(2)(i)	Board comprises of not less than 7 and not more than 11 directors.	Complied with. The Board comprised of not less than 7 and not more than 11 throughout the year which is in line with the direction and comprised of 10 Directors as at 31.12.2021.
3(2)(ii)	(A) The total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied with. None of the Directors have exceeded nine years as described in the direction.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Not applicable. Such a situation has not arisen.
3(2)(iii)	The number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied with. There was no Executive Director in the Board.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3(2)(iv)	<p>The Board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher.</p> <p>Check if non-executive directors can be considered independent if he/she:</p> <p>a) Holds a direct and indirect shareholding of more than 1 per cent of the bank;</p> <p>b) currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.</p> <p>c) has been employed by the bank during the two year period immediately preceding the appointment as director.</p> <p>d) has had a close relation, who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a “close relation” means the spouse or a financially dependent child)</p> <p>e) represents a specific stakeholder of the bank</p> <p>f) is an employee or a director or a material shareholder in a company or business organization:</p> <p>I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or</p> <p>II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or</p> <p>III. in which any of the other directors of the bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10 per cent of regulatory capital in the bank.</p>	<p>Complied with.</p> <p>Minimum six Independent/Non- Executive Directors have been represented the Board throughout the year. According to the Pradeshiya Sanwardhana Bank Act no.41 of 2008, Three Non-Independent Directors are being appointed from each of shareholder Banks and One Non-Independent Director being appointed from the General Treasury.</p>
3(2)(v)	<p>In the event an alternate director was appointed to represent an independent director, check the person so appointed meet the criteria that applies to the independent director.</p>	<p>Not Applicable.</p> <p>There are no provisions for appointing alternate Directors as per the Pradeshiya Sanwardhana Bank Act No.41 of 2008.</p>
3(2)(vi)	<p>The Bank has a process for appointing independent directors.</p>	<p>Not Applicable.</p> <p>Independent Directors are appointed by the Hon. Minister in terms of the provisions of PSB Act.</p>

Section	Principle	Level of Compliance during the year 2021
3(2)(vii)	That the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied with. As per section 16 of the Pradeshiya Sanwardhana Bank Act, the quorum includes 5 if the Board consisted with 7 Directors and 6 if the number of Directors over 7.
3(2)(viii)	The Bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report.	Complied with. Composition of the Board and their information is disclosed in the Annual Report.
3(2)(ix)	The procedure for the appointment of new directors to the board.	Not applicable. Directors are appointed by the Hon. Minister in terms of the provisions of PSB Act.
3(2) (x)	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Not applicable. Appointments and removal of Directors are done by the Hon. Minister in terms of the provisions of PSB Act.
3(2)(xi)	If a director resigns or is removed from office, the board: (a) Announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with. Appointment and removal of Directors are done by the Hon. Minister in terms of the provisions of PSB Act. Resigning director acknowledges his/ her resignation through a letter to the Bank and based on that letter the Bank informs to the Ministry that the Director has resigned.
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	Complied with. Such situation will not be arisen since the Directors are being appointed by Hon. Minister in consultation with Secretary to the Treasury. Also, the Central Bank of Sri Lanka assesses Fitness and propriety based on the declarations obtained from Directors and Key Management Personnel.
3(3)	Criteria to assess the fitness and propriety of directors	
3(3)(i)	The age of a person who serves as director does not exceed 70 years.	Complied with. No Director of the Board is over 70 Years old.
	(A) The transitional provisions have been complied with	Not applicable.
3(3)(ii)	If a person holds office as a director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the bank.	Complied with. None of the Directors hold directorship in 20 companies as per their declarations.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3 (3)(iii)	Director or CEO shall not be appointed as a Director or a CEO of another Licensed Bank operating in Sri Lanka prior to expiry of 6 months cooling-off period from the date of cessation of his/her office at a Licensed Bank.	<p>New General Manager/CEO had been appointed by the Board with effect from 01.02.2022.</p> <p>Not Complied.</p> <p>Acting General Manager/CEO who was served during the year 2021 was appointed by Finance Ministry before the expiry of a period of 6 months from the date of cessation of his/her office at the National Savings Bank.</p>
3(4)	Management functions delegated by the board	
3(4)(i)	The delegation arrangements have been approved by the board.	<p>Complied with.</p> <p>The Board has delegated matters pertaining to the affairs of the Bank to the Board sub-committees and also to CEO and other Key Management Personnel.</p>
3(4)(ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	<p>Complied with.</p> <p>Board takes the responsibility for the matters in 3 (1) (i) even though such matters are delegated.</p>
3(4)(iii)	The Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	<p>Complied with.</p> <p>The Board reviews and approves the delegation process on a periodic basis. Approval limits has been determined according to authority level.</p>
3(5)	The Chairman and CEO	
3(5)(i)	The role of Chairman and CEO is separate and not performed by the same individual.	<p>Complied with.</p> <p>The positions of the Chairman and the CEO are separated and performed by two individuals.</p> <p>The chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business.</p> <p>However, Chairman involves in the signing of agreements, Bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018 which is in line with the section 3 of the PSB Act.</p>

Section	Principle	Level of Compliance during the year 2021
3(5)(ii)	<p>The Chairman is a non-executive Director.</p> <p>In the case where the Chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference.</p> <p>The designation of the senior director is disclosed in the bank's Annual Report.</p>	<p>Complied with.</p> <p>Chairman is an Independent Non-Executive Director and the Bank has not designated any director as Senior Director.</p>
3(5)(iii)	<p>The Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.</p>	<p>Complied with.</p> <p>Annual declarations help to identify such relationships.</p>
3(5)(iv)	<p>The Board has a self- evaluation process where the chairman:</p> <p>(a) provides leadership to the board.</p> <p>(b) ensures that the board works effectively and discharges its responsibilities; and</p> <p>(c) Ensures that all key and appropriate issues are discussed by the board in a timely manner.</p>	<p>Complied with.</p> <p>Board has evaluated their performance through self-assessment process.</p>
3(5)(v)	<p>A formal agenda is circulated by the company secretary approved by the chairman.</p>	<p>Complied with.</p> <p>The agenda for each Board meeting is prepared and circulated by the Board secretary in consultation with the Chairman.</p>
3(5)(vi)	<p>The Chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.</p>	<p>Complied with.</p> <p>Matters to be taken up for discussions in Board Meetings are circulated with the notice of the meeting at least 07days prior to the meeting other than those which are urgent matters.</p>
3(5)(vii)	<p>The Board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.</p>	<p>Complied with.</p> <p>Board has assessed their effectiveness through Self-assessment process.</p>
3(5)(viii)	<p>The Board has a self-evaluation process that assesses the contribution of non-executive directors.</p>	<p>Complied with.</p> <p>Board has assessed their effectiveness through Self-assessment process.</p>

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3(5)(ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	<p>Complied with.</p> <p>Chairman is a Non- Executive Director and he does not involve in supervision of Key Management Personnel directly. However, Chairman involves in the signing of agreements, Bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018 which is in line with the section 3 of the PSB Act.</p>
3(5)(x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	<p>Complied with.</p> <p>As per the Pradeshiya Sanwardhana Bank Act No.41 of 2008, four ex-officio members have been appointed representing three share holder Banks and the General Treasury. Therefore, they act as a channel between the Board and Shareholders. Director representing General Treasury had been appointed from November 2021 and acting GM was appointed from General Treasury.</p>
3(5)(xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business	<p>The CEO is an executive officer in charge for day to day management of the bank operation.</p> <p>The acting General Manager/CEO was appointed by the Ministry of Finance. However, this appointment was not complied as per section 26 of the Pradeshiya Sanwardhana Bank Act No.41 of 2008 and CEO's fitness & propriety was not submitted to Central Bank of Sri-Lanka.</p> <p>Accordingly, PSB has taken necessary action to appoint a permanent General Manager/CEO in accordance with the PSB Act with effect from 01.02.2022 and his fitness & propriety has been approved on 28.03.2022 by Central Bank of Sri-Lanka.</p>
3(6)	Board appointed committees	
3(6)(i)	<p>The Bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.</p> <p>Check that each board committee report is addressed directly to the board.</p> <p>The board presents a report of the performance on each committee on its duties and roles at the Annual General Meeting (AGM).</p>	<p>Complied with.</p> <p>The Bank has established following Board Sub-Committees which directly report to the Board as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.</p> <p>Board Audit Committee Board HR and Remuneration Committee Board Nomination Committee Integrated Risk Management Committee</p> <p>Performance report on each committee on its duties and roles includes in the annual report. Also, the Annual Report is submitted to the Annual General Meeting.</p>

Section	Principle	Level of Compliance during the year 2021
3(6)(ii)	Audit Committee:	
	a) Chairman of the Audit Committee is an independent Non- Executive Director possesses qualifications and experience.	Complied with. The Chairman of the Audit Committee was an independent Non-Executive Director who was resigned from 21/12/2021.
	b) All members of the committee are non-executive directors.	Complied with. All members of the committee are non- executive directors.
	c) The committee has made recommendations on matters in connection with:	Not Applicable.
	(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes.	As per section 33 of the Pradeshiya Sanwardhana Bank Act No.41 of 2008, the Auditor General is the external auditor of the Bank.
	(ii) the implementation of the Central Bank guidelines issued to auditors from time to time.	Government Auditor represents Board Audit Committee by invitation and applicable Government / Central Bank guidelines which are issued to auditors from time to time and relevant accounting standards are being discussed in the meetings.
	(iii) the application of the relevant accounting standards; and	
	(iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	
	d) The committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Not Applicable. As per section 33 of the Pradeshiya Sanwardhana Bank Act No.41 of 2008, Auditor General is the external auditor of the Bank.
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	Not Applicable. Such situation has not arisen since Auditor General is the auditor of the Bank.
	f) The committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	Not Applicable. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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Section	Principle	Level of Compliance during the year 2021
	<p>g) The committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) the going concern assumption; and</p> <p>(iv) the compliance with relevant accounting standards and other legal requirements, and;</p> <p>(v) in respect of the annual financial statements the significant adjustments arising from the audit.</p>	<p>Complied with.</p> <p>The Board Audit Committee Reviews Quarterly and Annually Financial Statements of the Bank considering with major judgmental areas, changes in accounting policies, relevant accounting standards and other legal requirements.</p> <p>Further, Audited Financials with the disclosures are submitted to the Board.</p>
	h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	<p>Complied with.</p> <p>Committee had meetings with the external auditor without the executive management.</p>
	i) The committee has reviewed the external auditor's management letter and the management's response thereto.	<p>Complied with.</p> <p>Committee has reviewed the Management Letter for the year 2020 and the responses there to.</p>
	j) The committee shall take the following steps with regard to the internal audit function of the bank:	
	I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	Complied with.
	II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Complied with.
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	<p>Complied with.</p> <p>Appraisal of the year 2020/2021 of Assistant General Manager who overlook the CIA functions has been reviewed by Board Audit Committee.</p>
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	<p>Complied with.</p> <p>The appointment was approved by the full board with the recommendation of the Board Audit committee.</p>

Section	Principle	Level of Compliance during the year 2021
	V. The committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied with. The committee is appraised of the performance of Head of Audit of the Internal Audit Department.
	VI. The internal audit function is independent of the activities it audits.	Complied with. Internal audit function is independent of the activities it audits and major observations reported to the Board Audit Committee.
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with. The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.
	l) Whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied with. The committee has had two meetings with the external auditor without the Executive Directors.
	m) The terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with. The "Term of Reference" of the Audit Committee covers all these areas.
	n) The committee has met, at least four times and maintained minutes.	Complied with. Four committee meetings had been held during the Year 2021 and maintained minutes.
	o) The Board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Complied with. Details of the activities, number of audit committee meetings held, and details of attendance are disclosed in the annual report.
	p) The Secretary of the Committee is the company secretary or the head of the internal audit function.	Complied with. Board Secretary is the secretary to the Audit Committee.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
	<p>q) The “whistle blower” policy covers the process of dealing with;</p> <p>i) The improprieties in financial reporting, internal control or other matters.</p> <p>ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>iii) Appropriate follow-up action.</p>	<p>Complied with.</p> <p>Board approved “whistle blower” policy is in place.</p>
3(6)(iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	a) The committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the “Terms of reference” and minutes.	<p>Complied with.</p> <p>Remunerations of Directors are governed by Public Enterprise Department Circulars. The Committee has approved a Remuneration policy to determine the remuneration, allowances and other financial payments relating to Key Management personnel.</p> <p>Remuneration Policy should be reviewed during the year 2020, still it has not been reviewed and action need to be taken to review.</p>
	b) The goals and targets for the directors, CEO and the key management personnel are documented.	<p>Directors are Non-Executive Directors and as such specific goals and targets are not set for them.</p> <p>Complied with.</p> <p>Goals and Targets for the Key Management Personnel (KMP) have been documented as per annual budget and sectorial action plans.</p>
	c) The Committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically to determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	<p>Complied with.</p> <p>The Board HR & Remuneration Committee is being evaluated the performance of key management personnel's other than CRO, CO and CIA. The performance evaluation of CRO, CO and CIA who are engaged the independent functions are being reviewed by relevant Board Sub Committees.</p>
	d) The “Terms of reference” provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	<p>Complied with.</p> <p>The CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed as per the provision.</p>

Section	Principle	Level of Compliance during the year 2021
3(6)(iv)	Does the following rules apply in relation to the Nomination Committee:	
	a) The committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	<p>The Board appoints the CEO. However, Acting General Manager/CEO who was served during the year 2021 had been appointed by Finance Ministry in the year 2020 due to excergency situation arisen at the General Manager position.</p> <p>Complied with.</p> <p>Appointments of Directors are done by the Hon. minister in terms of the provisions of PSB Act. General Manager had been appointed from 01.02.2022 in terms of the provisions of PSB Act. Committee sets the criteria to select/appoint/ promote key Management personnel.</p>
	b) The committee has considered and recommended (or not recommended) the re-election of current directors.	<p>Not Applicable.</p> <p>The Hon. Minister appoints the Board of Directors in consultation with Secretary to the Treasury.</p>
	c) The committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	<p>Complied with.</p> <p>The required qualification and experience to be eligible for selection for the posts of Chief Executive Officer, Deputy General Managers & Regional General Managers have been determined by Pradeshiya Sanwardhana Bank Act No.41 of 2008. Eligibility/Selection criteria and qualifications for key Management personnel are determined by the Nomination Committee / Board.</p>
	d) The committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	<p>Declarations on fitness and propriety of the Acting CEO was not submitted to the CBSL and affidavits of ten KMP's which were submitted to the approval in 2021 have been approved on 09.02.2022.</p> <p>Complied with.</p> <p>Declarations on fitness and propriety of the Directors and Key Management Personnel were obtained and approved by Bank Supervision Department which have been updated by the Bank at the change of Positions / Qualifications.</p>

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
	e) The committee has considered a formal succession plan for the retiring directors and key management personnel.	<p>Board approved Succession Policy for the KMPs is in place. However, it had been updated with the views of the Board and it needs to be submitted to the Board Nomination Committee for recommendation.</p> <p>Complied with.</p> <p>The succession arrangements for the Directors are being done through Hon. Minister in terms of PSB Act.</p>
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<p>Complied with.</p> <p>An Independent Director has chaired at the meetings. As per the TOR, CEO participates at meetings by invitation. However, CEO has participated at all meetings.</p>
3(6)(v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	a) The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	<p>Complied with.</p> <p>The committee consists of 04 Non-Executive Directors, Chief Executive Officer and AGM-Risk Management. The Compliance Officer attends meetings on invitation.</p>
	b) The committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	<p>Complied with.</p> <p>The committee assesses risks and prepares the report on Key Risk Indicators of the Bank on a monthly basis by Assistant General Manager- Risk and submits to the Board. Also, recommendations of the IRMC are submitted for the review of Board of Directors. Further, some risks have been improved reflecting the risk profile of the Bank.</p>
	c) The committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	<p>Complied with.</p> <p>Meeting minutes and specific quantitative and qualitative risk of the Assets and Liability Committee (ALCO), Management Committee, Operational Risk Committee and Operational and Premises Committee were reviewed by the by BIRMC to ensure adequacy and effectiveness of committee operations.</p> <p>Further, committee overseen their performance and benchmark based on the committee charter or TOR of such committees.</p>

Section	Principle	Level of Compliance during the year 2021
	d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Complied with. Reports on Key Risk Indicators were reviewed by the committee.
	e) How many times the committee has met at least quarterly.	Complied with. Committee has met 05 times during the year 2021.
	f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Complied with. The formal disciplinary code is in place. The committee has taken decisions relating to risk matters through the committee papers. However, there are no any identified events for the year of 2021.
	g) The committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Complied with. Report on the Key Risk Indicators of the Bank is prepared on a monthly basis by AGM- Risk of the Bank and submitted at the very next Board meeting. Further, minutes of the IRMC meetings are submitted to the Board.
	h) The committee has established a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Complied with. Compliance function of the Bank is headed by the Compliance Officer who is a KMP of the bank and a compliance risk assessment report is submitted to BIRMC periodically by the Compliance Officer.
3(7)	Related party transactions	Complied with.
3(7)(i)	There is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:	Board approved policy on Related Party Transaction which was updated in year 2021 is available. However, some matters have been updated of the year 2022 after receiving the views on accommodation grant to the KMP's by Central Bank of Sri-Lanka.
	a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the directors of the bank; d. Any of the bank's key management personnel; e. A close relation of any of the bank's directors or key management personnel; f. A shareholder owning a material interest in the bank; g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.	Transactions belongs to related parties can be captured through system using the NIC based on their declarations.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3(7)(ii)	There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.	Complied with. Related Party Transaction Policy which was updated in 2021 and approved by Board is in place. Related party transactions can be identified based on declarations provided.
	a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	
	b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	
	c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.	
	d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	
3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.	Complied with. Accommodation granted to directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two thirds of the number of directors constituting the Board. Bank has implemented process to monitor Related Party Transactions which is monitored by Compliance Division and compliance status indicated in the compliance report is submitted to the BIRMC by quarterly from 01.01.2022. Bank has not granted the more favorable treatment to any related parties during the year 2021 (after approving the updated Related Party Transaction Policy).

Section	Principle	Level of Compliance during the year 2021
	<p>a) Granting of “total net accommodation” to related parties, exceeding a prudent percentage of the bank’s regulatory capital, as determined by the board. For purposes of this sub-direction:</p> <p>I. “Accommodation” shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation.</p> <p>II. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank’ share capital and debt instruments with a maturity of 5 years or more.</p>	
	b) Charging of a lower rate of interest than the bank’s best lending rate or paying more than the bank’s deposit rate for a comparable transaction with an unrelated comparable counterparty.	
	c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	d) Providing services to or receiving services from a related-party without an evaluation procedure;	
	e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3(7)(iv)	<p>The bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favor of such accommodation.</p> <p>This accommodation be secured by such security as may from time to time be determined by the Monetary board as well.</p>	<p>Complied with.</p> <p>Policy covers this requirement and no such occasions have been reported during the year in relation to Directors.</p> <p>Accommodation granted to KMP’s are sanctioned by relevant authority levels of the bank based on circular guidelines issued relating to the staff loans.</p>

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
3(7)(v)	a) The bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.	Complied with. The Board approved policy on Related Party Transaction cover this requirement. Such a situation has not arisen during the year 2021.
	b) where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	Such a situation has not arisen. However, above policy covers this requirement.
	c) There is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclosed such facts to the public.	Such a situation has not arisen. However, above policy covers this requirement.
	d) The process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.	Such a situation has not arisen. However, above policy covers this requirement.
3(7)(vi)	There is a process in place to identify when the bank grants any accommodation or “more favorable treatment” relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.	Complied with. Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two thirds of number of directors constituting the Board. Accommodation granted to KMP's are sanctioned by relevant authority levels of the bank based on circular guidelines issued relating to the staff loans.
3(7)(vii)	There is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.	Such a situation has not arisen and updated policy for the year 2022 covers this requirement.

Section	Principle	Level of Compliance during the year 2021
3(8)	Disclosures	
3(8)(i)	<p>The board has disclosed:</p> <p>(a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p> <p>(b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied with.</p> <p>Annual audited financial statements are prepared and published in accordance with the format prescribed by the supervisory and regulatory authorities and applicable accounting standards. Those Statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>
3(8)(ii)	Check that the board has made the following minimum disclosures in the Annual Report.	
	<p>a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p>	<p>Complied with.</p> <p>The note no.2.2 to the Financial Statements disclose that the Financial Statements have been prepared in accordance with Sri Lanka Accounting standards in compliance with the requirement of the Banking Act No.30 of 1988.</p>
	<p>b) The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p>	<p>Complied with.</p> <p>Report of the Internal Control System Over Financial Reporting is given under the "Directors' Statement on Internal Control".</p>
	<p>c) The board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.</p>	<p>Complied with.</p> <p>The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting from the Auditor General.</p>

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2021
	d) Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	<p>Complied with.</p> <p>Details of directors, including names, qualifications, and experience of the Board of Directors has been disclosed under Board of Directors.</p> <p>Further, Fees / remunerations paid to the Board of Directors have been disclosed note no.14 of the Financial Statements.</p>
	e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Total exposure to KMPs and close family members have been disclosed under note no.38 to the financial statements.
	f) The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	<p>Complied with.</p> <p>The aggregate value of remuneration paid to the Key Management Personnel and the aggregate value of transactions with Key Management Personnel are disclosed under note no.38.1 of the Financial Statements.</p>
	g) The Board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	<p>Complied with.</p> <p>External Auditor's report on compliance with Corporate Governance Directions is included in the Annual Report.</p>
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	<p>Complied with.</p> <p>The details of the compliance with prudential requirements, regulations and laws and internal controls were included in the Directors Report.</p>
	i) A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns.	<p>Not Applicable.</p> <p>No such direction was given.</p>

Attendance of the Board and Board Committees

Attendance of Board of Directors													
No.	Name	Held dates and Participation of Board Meetings											
		21/01/2021	18/02/2021	18/03/2021	22/04/2021	20/05/2021	17/06/2021	29/07/2021	26/08/2021	30/09/2021	28/10/2021	29/11/2021	20/12/2021
1	Mr. M. Mahinda Saliya - Chairman	P	P	P	E	P	P	P	P	P	P	P	P
2	Dr. M. Nirmal De Silva - Board Director	E	P	P	P	P	P	P	P	P	E	P	P
3	Mr. W.M. Karunaratne - Board Director	E	P	P	P	P	P	P	P	P	P	P	P
4	Prof. H.M.W. Ariyaratna Herath - Board Director	P	P	P	P	P	P	P	P	P	P	P	P
5	Mr. K. Raveendran - Board Director	P	P	P	P	P	P	P	P	P	P	P	P
6	Mr. B.M. Premanath - Board Director	E	P	P	P	P	E	P	P	P	P	E	E
7	Mr. M.S.D. Ranasiri - Board Director	P	P	P	P	P	P	P	P	P	P	P	P
8	Mr. Lalith Abeysiriwardena - Board Director	P	P	P	P	P	P	P	P	P	P	P	P
9	Mr. K.E.D. Sumanasiri - Board Director	P	E	P	P	P	P	P	N/A	N/A	N/A	N/A	N/A
10	Mr. G.A. Jayashantha - Board Director	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	P	P	P	P
11	Mrs. Hiranthi Karunaratne - Board Director	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	P	P
12	Mr. M.S.S.S. Fernando - Board Director	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	P

Board Human Resources & Remuneration Committee			
Name of member	Dates of meetings		
	23.09.2021	08.12.2021	
Mr. Mahinda Saliya - Chairman	P	P	
Dr. Nirmal De Silva - Director	P	P	
Mr. Lalith Abeysiriwardena - Director	P	P	
Prof. Ariyaratne Herath - Director	P	P	

Board Nomination Committee			
Name of member	Dates of meetings		
	23.09.2021	30.09.2021	
Mr. M. Mahinda Saliya - Chairman	P	P	
Dr. Nirmal De Silva - Director	P	P	
Mr. Lalith Abeysiriwardena - Director	P	P	
Prof. H.M.W.A. Herath - Director	P	P	

Board Integrated Risk Management Committee			
Name of member	Dates of meetings		
	15.11.2021	20.12.2021	
Mr. K. Raveendran - Director	P	P	
Prof. H.M.W.A. Herath - Director	P	P	
Dr. Nirmal De Silva - Director	P	P	
Mr. G.A. Jayashantha - Director	P	P	

Board Audit Committee			
Name of member	Dates of meetings		
	15.09.2021	09.12.2021	
Mr. M.S.D. Ranasiri - Director	P	P	
Mr. W.M. Karunaratne - Director	P	P	
Mr. B.M. Premanath - Director	P	E	
Mr. Lalith Abeysiriwardena - Board Director	P	P	
Prof. H.M.W.A. Herath - Director	P	P	
Mr. G.A. Jayashantha - Director	NA	E	

Annual Report of the Board of Directors

GENERAL

The Directors of the Pradeshiya Sanwardhana Bank (PSB) take pleasure in presenting their Annual Report on the affairs of the Bank, together with the audited Financial Statements of the Bank's twelfth year ended 31st December 2021. The Report also conforms to the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and Directions on Corporate Governance. The Bank was originally established in 1997 when seventeen Rural Development Banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. These six Provincial Development Banks were further merged in May 2010 as a National Level Development Bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or PSB). PSB was established under the Pradeshiya Sanwardhana Bank Act No. 41 of 2008. PSB is a fully state-owned national level Bank with the objectives of empowering the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

PRINCIPAL ACTIVITIES

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

VISION, MISSION

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

GOING CONCERN

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

FINANCIAL STATEMENTS

The Financial Statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs/ LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and complied with the Banking Act No. 30 of 1988. The Financial Statements of the Bank's twelfth year ended 31st December 2021, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 121 and form an integral part of the Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Directors' Responsibility Statement appearing on page 111 of this Annual Report describes in detail the Directors' responsibilities in relation to the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

AUDITOR'S REPORT

The Auditor General carried out the audit of the Bank for 2021, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information, were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 114 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of Financial Statements are given on pages 128 to 142.

DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year are given in Note 14 of the Financial Statements.

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Chairman's statement (pages 8 to 11), the General Manager/ CEO's review (pages 12 to 15) and the Management Discussion and Analysis (pages 34 to 65)

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2021 is contained in the Chairman's statement (pages 8 to 11), the General Manager/ CEO's review (pages 12 to 15) and the Management Discussion and Analysis (pages 34 to 65). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank's financial and operational performance is given on the General Manager / CEO's Review on pages 12 to 15 and in the Financial Highlights on pages 6 to 7.

STATED CAPITAL

The total shareholders' fund as at 31.12.2021 is Rs.15.4 Bn. The Stated Capital contributed by shareholders at the end of year is Rs. 8.05 Bn. and their percentage of shareholding is as follows.

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

INCOME

The gross income of the Bank for 2021 was Rs. 24.5 Bn. Details of the income are given on page 143.

TAXATION

The Bank contributed Rs. 1,972 Mn. by way of taxes and levies to the Government in 2021. This consisted of Rs. 821 Mn. of Income Tax and Rs 1,151 Mn. of Financial Services Value Added Tax. The Income Tax Rate applicable on the Bank's operations is 24%. It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method.

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, Leasehold Property and Intangible Assets during the year amounted to Rs. 326 Mn. (2020 Rs. 47 Mn.), the details of which are given in Notes 24 and 25 of the Financial Statements on pages 156 to and 160 of this Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

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

OUTSTANDING LITIGATION

In the opinion of the Directors and the Bank's lawyers, outstanding litigation against the Bank disclosed in Note 41 of the Financial Statements will not have a material impact on the financial position of the Bank or its future operations.

CAPITAL & RESERVES

The Capital and Reserves of the Bank including Retained Earnings consist of the following:

	2021 (Rs)	2020 (Rs.)
Stated Capital	8,047,229,930	8,047,229,930
Statutory Reserve Fund	777,778,133	762,462,998
Special Reserve Fund	632,168,461	616,853,326
General Reserve Fund	3,299,712,282	3,238,451,740
Retained Earnings	2,636,433,520	2,449,318,947
Total	15,393,322,327	15,114,316,941

DIVIDENDS

In view of marginal operating results of the year 2021 and capital shortfall, the board of directors have not approved a dividend distribution out of profits for the year 2021.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

BOARD OF DIRECTORS

The Board of Directors comprises 11 Members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 18 to 23 of this Annual Report.

Mr. M. Mahinda Saliya - Chairman

Mr. K. Raveendran

Non-Independent / Non-Executive Director

Mr. B.M. Premanath

Non-Independent / Non-Executive Director

Mr. K.E.D. Sumanasiri

Non-Independent / Non-Executive Director

Mr. M.S.D. Ranasiri

Independent / Non-Executive Director

Mr. W.M. Karunaratne

Independent / Non-Executive Director

Prof. H.M.W. Ariyaratne Herath

Independent / Non-Executive Director

Dr. Nirmal De Silva

Independent / Non-Executive Director

Mr. Lalith Abeysiriwardena

Independent / Non-Executive Director

Mr. G.A. Jayashantha

Non-Independent / Non-Executive Director

Mrs. Hiranthi Karunaratne

Independent / Non-Executive Director

Mr. M.S.S.S. Fernando

Non-Independent / Non-Executive Director

RESIGNATION OF DIRECTORS

Mr. K.E.D. Sumanasiri - Non-Independent / Non-Executive Director, Resigned from 16.08.2021

Mr. M.S.D. Ranasiri - Independent/ Non-Executive Director, Resigned from 21.12.2021

Mr. B.M. Premanath - Non-Independent/ Non-Executive Director from 01.01.2022

NEW APPOINTMENT OF DIRECTORS

Director	Appointment Date
Mr. G.A. Jayashantha	26.08.2021
Mrs. Hiranthi Karunaratne	21.09.2021
Mr. M.S.S.S. Fernando	01.10.2021

BOARD SUB COMMITTEES

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

BOARD AUDIT COMMITTEE

1. Mr. M.S.D. Ranasiri (Chairman of the Committee) (resigned w.e.f.21.12.2021)
2. Mr. W.M. Karunaratne
3. Mr. B.M. Premanath (resigned w.e.f. on 01.01.2022)
4. Mr. Lalith Abeysiriwardena (appointed on 29.07.2021)
5. Mr. G.A. Jayashantha (appointed on 01.10.2021)
6. An Audit Superintendent of National Audit Office
7. Mr. C.L.C. Muthubanda - AGM - Internal Audit

Report of the Audit Committee is given on page 102 and forms a part of the Directors' Report.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

1. Mr. K. Raveendran (Chairman of the Committee, appointed on 21.01.2021)
2. Prof. H.M.W.A. Herath
3. Mr. K.E.D. Sumanasiri (appointed on 27.11.2020 and resigned w.e.f. 16.08.2021)
4. Dr. Nirmal De Silva (appointed on 29.07.2021)
5. Mr. G.A. Jayashantha (appointed on 01.10.2021)
6. Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
7. Mrs. H.M.N.M. Herath – AGM – Risk Management
8. Mrs. T. K. Wijeratne - AGM – Compliance

Report of the Integrated Risk Management Committee is given on page 104 which forms part of the Directors' Report.

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

1. Mr. M. Mahinda Saliya (Chairman of the Committee)
2. Dr. Nirmal De Silva
3. Mr. Lalith Abeyesiriwardena
4. Prof. H.M.W.A. Herath
5. Mr. K.E.D. Sumanasiri (appointed on 02.07.2020 and resigned w.e.f. 16.08.2021)
6. Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
7. Mr. D.K.S. Serasinghe - Chief Human Resources Officer

BOARD INFORMATION & COMMUNICATION TECHNOLOGY COMMITTEE

1. Dr. Nirmal De Silva (Chairman of the Committee)
2. Mr. M.S.D. Ranasiri (appointed on 02.11.2020 and resigned w.e.f. 21.12.2021)
3. Mr. K.E.D. Sumanasiri (appointed on 27.11.2020 and resigned w.e.f. 16.08.2021)
4. Mr. K. Raveendran (appointed on 27.11.2020)
5. Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
6. Mr. V. Jayasinghe – Chief Information Officer

BOARD CREDIT COMMITTEE

1. Mr. M. Mahinda Saliya (Chairman of the Committee)
2. Mr. W.M. Karunaratne
3. Mr. M.S.D. Ranasiri (appointed on 02.11.2020 and resigned w.e.f. 21.12.2021)
4. Mr. Lalith Abeyesiriwardena
5. Mr. B.M. Premanath (appointed on 27.11.2020 and resigned w.e.f. 21.12.2021)
6. Mrs. R.M.D.K. Rathnayake – acting GM/CEO (appointed on 02.11.2020)
7. Mr. A.H.M.M.B. Jayasinghe – DGM – Credit
8. Mr. A.H.M.G. Abeyratne - DGM- Recovery

BOARD NOMINATION COMMITTEE

1. Mr. M. Mahinda Saliya (Chairman of the Committee)
2. Dr. Nirmal De Silva
3. Mr. Lalith Abeyesiriwardena
4. Prof. H.M.W.A. Herath
5. Mr. K.E.D. Sumanasiri (appointed on 02.07.2020 and resigned w.e.f. 16.08.2021)
6. Mrs. Hiranthi Karunaratne (appointed on 20.12.2021)
7. Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
8. Mr. D.K.S. Serasinghe - Chief Human Resources Officer

DIRECTORS' MEETINGS

The number of Directors' meetings which comprise Board Meetings, Board Audit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board Human Resource and Remuneration Committee Meetings, Board Nomination Committee Meetings, Board Credit Committee Meetings and Board IT Steering Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page 93 of this Annual Report.

DIRECTORS' INTEREST IN CONTRACTS

The Directors did not have any direct or indirect interest in contracts or proposed contracts with the bank during the year under review.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed the transactions, if any, that could classify as related party transactions in terms of Sri Lanka Accounting Standards (LKAS24) Related Party Disclosures, which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 38 to the Financial Statements.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

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

HUMAN RESOURCES

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

OPERATIONAL EXCELLENCE

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

ENVIRONMENTAL PROTECTION

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

STATUTORY PAYMENTS

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

RISK MANAGEMENT INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been re-designed to mitigate the risks to which the Bank is exposed to and provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risks are detailed on pages 58 to 65 to this Annual Report.

DIRECTORS' STATEMENT OF INTERNAL CONTROL

The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on page 110. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 108 of this Annual Report.

CORPORATE GOVERNANCE

In the management to the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced / improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 69 to 92 for which the Board has obtained a Report of Factual Findings from the Auditor General.

COMPLIANCE WITH LAWS, REGULATIONS AND PRUDENTIAL REQUIREMENTS

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

AUDITORS

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2021.

By the order of the Board



Secretary to the Board

Board Human Resources and Remuneration Committee (BHRRC), Board Nomination Committee (BNC) Report

INTRODUCTION

Pradeshiya Sanwardhana Bank (PSB) is required to establish Board Sub-committees to report directly to the Board of Directors in terms of the Corporate Governance Practices and the directions of Central Bank of Sri Lanka (CBSL) as set out in the Directions 3 (6) issued to Licensed Specialized Banks in terms of its Section 3(6) (iii) and (iv). Two separate committees were formed with the composition of the Board of Directors, namely Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC). Responsibilities were assigned to the two committees within the scope defined as per CBSL directions. BHRRC and BNC function as two separate committees as per defined Terms of Reference (TOR) with effect from 27th March 2017.

THE SCOPE OF BHRRC INCLUDES,

- Determining the remuneration policy relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel (KMPs) of the Bank.
- Setting goals and targets and evaluating the performance of the Directors, CEO and the KMPs against the set targets and goals periodically.
- Guiding and advising to devise human resource strategies and policies linked with business and functional strategies of the Bank.
- Make recommendations to the Board relating to the matters, proposals submitted by the Human Resources Policy Committee.

THE SCOPE OF BNC INCLUDES,

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

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

COMPOSITION AND MEETINGS

Board Human Resources and Remuneration Committee and Board Nomination Committee meetings were headed by Mr. M. Mahinda Saliya - Chairman.

Five (05) Board Human Resources and Remuneration Committee meetings and Four (04) Board Nomination Committee meetings were held during the year ended 31st December 2021.

Chief Human Resources Officer shall present all the papers through General Manager/CEO with background and other related information and analysis to enable committee members to derive at decisions.

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

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

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

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

Board Human Resources and Remuneration Committee Members;

Name	Attended/ Eligible
Mr. M. Mahinda Saliya – Chairman (Appointed w.e.f. February 26, 2020)	05/05
Dr. Nirmal De Silva – Director (Appointed w.e.f. February 26, 2020)	05/05
Mr. Lalith Abeyesiriwardena – Director (Appointed w.e.f. February 26, 2020)	05/05
Prof. H.M.W.A. Herath – Director (Appointed w.e.f. February 26, 2020)	05/05
Mr. K.E.D. Sumanasiri – Director (Resigned w.e.f. August 26, 2021)	02/03
Mrs. R.M. Damitha Rathnayaka – Actg. General Manager/CEO	
Mrs. R.M.T. Rajapakse – Board Secretary	

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

Board Nomination Committee Members;

Name	Attended/ Eligible
Mr. M. Mahinda Saliya – Chairman (Appointed w.e.f. February 26, 2020)	04/04
Dr. Nirmal De Silva – Director (Appointed w.e.f. February 26, 2020)	04/04
Mr. Lalith Abeyesiriwardena – Director (Appointed w.e.f. February 26, 2020)	04/04
Prof. H.M.W.A. Herath – Director (Appointed w.e.f. February 26, 2020)	04/04
Mr. K.E.D. Sumanasiri – Director (Resigned w.e.f. August 26, 2021)	02/02
Mrs. R.M. Damitha Rathnayaka – Actg. General Manager/CEO	
Mrs. R.M.T. Rajapakse – Board Secretary	

SUMMARY OF ACTIVITIES

In August 2021, in view of the resignation of Mr. K.E.D. Sumanasiri – Board Director, it was decided to appoint Mrs. Hiranthi Karunaratne – Board Director as a member of the BNC.

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



Mr. M. Mahinda Saliya

Chairman

Board Human Resources and Remuneration Committee
Board Nomination Committee

August 15, 2022

Board ICT Committee (BICTC) Report

SCOPE

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

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

COMPOSITION OF THE BICTC COMMITTEE:

The BICTC approved by the Board of Directors of the Pradeshiya Sanwardhana Bank (RDB) comprises of the following Members.

BOARD ICT COMMITTEE MEMBERS:

1. Dr. Nirmal De Silva (Chairman of the Committee)
2. Mr. M.S.D. Ranasiri (appointed on 02.11.2020 - resigned w.e.f. 21.12.2021)
3. Mr. K.E.D. Sumanasiri (appointed on 27.11.2020 - resigned w.e.f. 16.08.2021)
4. Mr. K. Raveendran (appointed on 27.11.2020)

General Manager / Chief Executive Officer, Chief Information Officer, Assistant General Manager - Risk Management are Members of the Corporate Management who attend to these BICTC meetings as invitees. Any Officers of the Bank can also attend to the meeting on invitation.

The quorum of the meeting of BICTC is two (02) Members. BICTC has conducted two (02) meetings for the first & second quarters of the year 2021 thus meeting the regulatory requirements. These meetings were held on 10th March 2021 and 25th June 2021.

BICTC Committee was dissolved, according to the decision taken at the Board Meeting held on the 29th July 2021.



Dr. Nirmal De Silva

Chairman

Board ICT Committee (BICTC)

August 15, 2022

Board Audit Committee (BAC) Report

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

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

COMPOSITION OF THE COMMITTEE

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

1. Mr. M.S.S.S. Fernando (Chairman of the Committee)
2. Mr. W.M. Karunaratne
3. Mr. Lalith Abeyesiriwardhana (appointed on 15.09.2021)
4. Mr. G.A. Jayashantha (appointed on 09.12.2021)
5. Mr. M.S.D. Ranasiri (resigned w.e.f. 21.12.2021)
6. Mr. B.M. Premanath (resigned w.e.f 31.12.2021)

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

CHARTER OF THE COMMITTEE

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

DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC is responsible for -

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

MEETINGS

Meetings of the committee are convened quarterly, in accordance with the regulations/guidelines for organizational corporate governance issued by the Central Bank of Sri Lanka. Four (04) Audit Committee meetings have been held during the financial year ended 31st December.2021.

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

Attendance of committee members is as follows:

Name of the committee member	Attendance
Mr. M.S.D. Ranasiri	04/04
Mr. W.M. Karunaratne	04/04
Mr. B.M. Premanath	02/04
Mr. Lalith Abeywardhana	02/02
Mr. G.A. Jayashantha	00/01

INTERNAL AUDIT AND INSPECTION

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

The spread of the Coronavirus ("COVID-19") has directly impact to carry out audit as per audit plan. Hence most of the branch audit converted to system audit. According to the Internal Audit plan during the year under review most of the Branches have been audited by the Internal Audit Department under the supervision & guidance of the Board Audit Committee. At the same time BAC has assisted the Board in ensuring that Annual Financial Statement and Interim Financial Statements have been prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable accounting standards.

The BAC also followed up on corrective measures taken by the management during the year 2021 on matters raised by the Report of National Audit Office issued in terms of Section 13(7) (a) of the Finance act No.38 of 1971 for the year 2020 and Management Letter 2020.

Furthermore, actions have already been taken for improving internal control system and means of mitigating frauds, errors and other loss events. The Board

Audit Committee evaluates the Bank's sustainability, profitability and other related concerns. Arrangements have also been made to enhance knowledge and skills of Audit staff.

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

EXTERNAL AUDIT

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

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

SRI LANKA ACCOUNTING STANDARDS

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

ACTIVITIES PERFORMED IN YEAR 2021

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

1. Approved the Annual Audit Plan prepared based on risk profiles of the areas of the Bank for the year 2022.
2. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of section 13 (7) of the Finance Act No.38 of 1971 for the year 2020 and the management responses thereon.
3. Reviewed quarterly financial performance of the Bank for the year 2021 and recommended to submit the same to the Board
4. Periodically review of internal audit reports and the performance of the Internal Audit Department



M.S.S.S. Fernando
Chairman

Board Audit Committee
August 15, 2022

Report of the Board Integrated Risk Management Committee

COMPOSITION OF THE COMMITTEE

During the year under review the Integrated Risk Management Committee (BIRMC) consist of the following five Non-Executive Directors, whose profiles are given on page 18 to 23.

Under each name include whether the Directors is Independent or Non-Independent

1. Mr. K. Raveendran - Director (Chairman of the Committee /Independent Director)
2. Prof. H.M.W.A. Herath - Independent Director
3. Mr. K.E.D. Sumanasiri - Independent Director
4. Dr. Nirmal De Silva - Independent Director
5. Mr. G.A. Jayashantha - Independent Director

Chief Executive Officer (CEO), Chief Risk Officer (CRO) and Compliance Officer attended the meetings on regular basis during the year 2021.

SECRETARY TO THE COMMITTEE

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

BIRMC meets on a quarterly basis however based on the needs additional meetings have been conducted. Minimum quorum of the Committee is two independent directors, CEO and CRO as per the charter of the BIRMC.

During the year under review, the BIRMC held four (04) meetings on quarterly basis and one (01) additional meeting specifically to discuss the impact of COVID-19 pandemic on risk profile of the Bank. The proceedings of the Committee meetings were regularly reported to the Board of Directors

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

MEETINGS

Name of the Committee member	Attendance
Mr. K. Raveendran - Director	05/05
Prof. H.M.W.A. Herath - Director	05/05
Mr. K.E.D. Sumanasiri - Director	03/05
Dr. Nirmal De Silva - Director	03/05
Mr. G.A. Jayashantha - Director	02/05

CHARTER OF THE COMMITTEE

The BIRMC has been established by the Board of Directors, in compliance with Section 3 (6) of the Direction No. 11 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988.

The BIRMC assists the Board of Directors in fulfilling its responsibilities for overseeing the Bank's risk management framework and activities, including the review of major risk exposures and the steps taken to monitor and control.

The Terms of Reference set out by the Board of Directors, roles and responsibilities of the Committee consist following:

1. Ensure the risk management strategy, framework and methodology are implemented/practiced throughout the Bank consistently as per the Integrated Risk Management (IRM) Framework.
2. Adequacy and effectiveness of risk identification, measurement, monitoring and mitigation relating to credit, market, liquidity, operational and compliance risks.
3. To ensure that risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk taken beyond the risk tolerance set by the committee, on the basis of the Bank's policies and regulatory and supervisory requirements.
4. Monitor and assess the effectiveness of the Bank's Risk Management System and the robustness of the risk management function.
5. Setting Risk Appetite and Tolerance limits to the Bank.
6. To review progress on Basel III road map implementation and regulatory guidelines.
7. Reviewing and upgrading Risk Management Policies of the Bank.
8. Determine the scope of the Risk Management Division (RMD) and to guide the function of RMD to ensure effective implementation of the IRM Framework.

ACTIVITIES IN 2021

In discharging the above duties and responsibilities vested on the BIRMC, the Committee reviewed significant risks comprising strategic, operational, credit, market, cyber and other emerging risk categories during the year. The activities carried out by the Committee are included below;

1. Reviewed and revised the existing risk related policies and recommended the policies/ manuals based on which the risk profile of the Bank,

Risk Management Policies reviewed and revised during the year 2021

Stress Testing Policy	Outlines the Stress Testing Framework of the Bank
Information Security Policy	Outlines rules and guidelines related to the security of the information within the Bank and its networks.
Compliance Policy	Framework for management of compliance risk of the Bank
Anti Money Laundering (AML) Policy	Guidelines and procedures for ensuring anti money laundering of the Bank

Newly upgraded Risk Management Policies implemented during the year 2021 which has been assessed through external consultants.

Interest rate risk Management Policy	Framework for identification, assessment, management and mitigation of Interest rate risk.
Liquidity Risk Management Policy	Framework for identification, assessment, management and mitigation of Liquidity risk.
Foreign Exchange Risk Management Policy	Framework for identification, assessment, management and mitigation of Foreign Exchange risk.
ALCO statement	Guidelines and procedures for ensuring Asset and Liability Management.

Policies related to other functions of the Bank which has been reviewed and revised during the year 2021,

Related party transactions Policy	Guideline and procedures on related party transactions
Compliance Policy	Internal policies and procedures which should be adhered by the Bank in order to comply with laws, rules, and regulations imposed by the regulator.
Investment Policy	Parameters and guidelines for investing Bank funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored.
Impairment Policy	Framework on Bank's policy for grouping financial assets measured on a collective basis.
Risk Assessment Matrix Policy	Framework for identification, assessment, management and mitigation of risk.
Disclosure Policy	Disclosure Policy is to ensure that required information, other than confidential business information, is disclosed to the public, investors, employees, customers, creditors and other relevant parties in a timely, accurate, complete, understandable, convenient and affordable manner.
Outsourcing Policy	Framework to manage the risks associated with outsourcing agreements.
Vehicle Management Policy	Framework on vehicle Management procedures and policies of the Bank.
Loan write off/write down Policy	Framework on loan write off/write down procedures of the Bank.
Policy for Recovering NP Loan	Framework and guideline on recovering NP Loan after realization of Movable / Immovable properties, through parate execution and acquisition of not sold out properties at auctions & sell them through tenders.
New product Policy	Framework and guideline on new product pricing strategies adapted by the Bank.
Whistle blower Policy	Framework on principle of reporting , management assurance of the bank on illegal practices or violations of adopted policies of the organization.

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

- 2. The Key Risk Indicators (KRIs) upgraded to monitor the level of specific risks were reviewed regularly, with a view to determining the adequacy of such indicators to serve the intended risk management objectives and proactive measures to control risk exposures. The actual monthly results were reviewed against benchmarks and prompt corrective actions were recommended to mitigate the effects of specific risks.
- 3. Main focus area for the year 2021 was on the deteriorated credit quality level of the industry amidst economic challenges that the country is facing due to the COVID-19 global pandemic situation. Deliberations on sectors affected and the factors that are within the control of the Bank to mitigate the risks were given due consideration with a view to arresting deterioration of credit quality
- 4. Reviewed reports on Risk Appetite Framework and Risk Tolerance Limit, quarterly report on overall risk management aspect of the Bank.
- 5. Reviewed the Internal Capital Adequacy Assessment Process (ICAAP) document of the Bank.
- 6. Reviewed adequacy and effectiveness of management committees.
- 7. Monitored and reviewed the sectorial limits of the loan portfolio of the bank which have gone beyond their approved limits and made recommendations for the adjustments.
- 8. Reviewed the comprehensive Compliance Reports submitted by the Compliance Officer to assess the extent of compliance with the regulatory requirements.
- 9. Reviewed all minutes of the management level committees (Operational Risk Management Subcommittee, Management Committee, Assets and liability Management Committee ,Operations premises committee)
- 10. Monitored and reviewed the statutory examination report and made all possible recommendations to rectify the issues.
- 11. Monitored and reviewed the all types of risk indicators such as cyber risk reports, Interest rate risk , Foreign Exchange risk, operational risk, compliance risk..etc. and made recommendations to minimize the risks.
- 12. Monitored Disaster Recovery drill of the bank and made all possible recommendations in order to success of the DR Drill.
- 13. Closely worked with the risk management department of the bank for knowledge enhancement of the department.
- 14. Implemented risk limits for some indicators of liquidity risk, credit risk and etc.

REPORTING

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

During the year 2021, the BIRMC supported execution of the overall business strategy of the Bank within a risk parameters set, that are reinforced by an effective risk management framework and activities were regularly reported to the Board of Directors.

CONCLUSION

The members of the Integrated Risk Management Committee in 2021 has evaluated its performance for effectiveness and efficiency by acting collectively. The Committee continually reviews the various risk areas encountered by the bank and were able to promote a robust risk governance framework by engaged in following,

- 1. A well-developed risk management policy covering determination of risk appetite.
- 2. Effectively communicating the results of stress tests or scenario analyses, peer bank analysis and data analysis. Ensuring that risk reporting accurately communicates to the Board of Directors.
- 3. Increasing awareness among staff over the need for managing risks, ensuring compliance and training staff are important components of creating risk culture.
- 4. The Committee is of the view that the Bank is on the right path towards meeting the challenges of Risk Management and compliance safeguarding the interests of Bank's stakeholders.

On behalf of the Board Integrated Risk Management Committee



Chairman
Integrated Risk Management Committee

August 15, 2022
Colombo

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of the Pradeshiya Sanwardhana Bank as at 31st December 2021 are prepared and presented in compliance with the following regulatory requirements:

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

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

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

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

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

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

The Financial Statements of the Bank was audited by National Audit Office. The Report issued by Auditor General is available on pages 114 to 118 of the Annual Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 102 to 103 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee at the Audit Committee Meeting to discuss any matter of substance.

We confirm to the best of our knowledge that:

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

There is no material non-compliance;

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

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



A.H.M.M.B. Jayasinghe
General Manager/CEO



P.S. Edirisuriya
Chief Financial Officer

August 15, 2022

Auditor General's Report on the Statement of Internal Control



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எனது இல. } BAN/E/RDB/IC/2021
My No. }

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உமது இல. }
Your No. }

දිනය
திகதி } 07 September 2022
Date }

The Chairman,
Pradeshiya Sanwardana Bank

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

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of Pradeshiya Sanwardana Bank included in the annual report for the year ended 31 December 2021.

Management's responsibility

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

My Responsibility and Compliance with SLSAE 3050 (Revised)

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

I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 (Revised), Assurance Report for Banks on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka. This Standard requires that I plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.



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

Summary of work performed

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

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

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

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

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

Conclusion

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


W.P.C. Wickramaratne
Auditor General

Directors' Statement on Internal Control over Financial Reporting

REQUIREMENT

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

RESPONSIBILITY

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

BOARD REVIEW PROCESS

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

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

KEY FEATURES OF THE PROCESS

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

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

and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The Annual Audit Plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at the periodic meetings.

- The Audit Committee of the Bank review internal control issues identified by the Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.
- The bank adopted the new Sri Lanka Accounting standards SLFRS – 09, Financial Instruments in 2018 and SLFRS -16, leases in 2019. The process and procedures initially applied to adopt the aforementioned accounting standards to be further strengthened based on the feedback from external Auditors, regulators and the Board Audit Committee. The bank will continue to further strengthen the process on impairment of Loans and Advances, Financial statement disclosures and Risk Management.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' statement on internal control for the year ended 31st December 2021 and are supposed to report to the Board whether anything has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.



Chairman – Audit Committee



Director



Director

01/09/ 2022

Directors' Responsibility for Financial Reporting

This statement of the Board of Directors sets out the responsibilities of the Directors relating to the Financial Reporting framework of the Bank. The responsibilities of the Auditors in relation to the Financial Statements are set out in the Report of the Auditors on page 114 of the Annual Report.

FINANCIAL STATEMENTS

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

The Directors Acknowledge that in the preparation of Financial Statements for the ended 31st December 2021, presented in the Annual Report, the most appropriate accounting policies have been used, applied consistently and adequately disclosed. Reasonable and prudent judgements have been made where necessary in order to ensure the proper reflection of the form and substance of transaction in the process of preparing Financial Statements.

The Financial Statements for the year ended 31st December 2021 are in conformity with the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and amendments thereto, Sri Lanka Accounting Standards and other statutory / regulatory requirements. These Financial Statements reflects true and fair view of the state of affairs of the bank as at 31st December 2021.

GOING CONCERN

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

INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE

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

Emphasizing inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls. A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on pages 110 of the Annual Report.

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

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

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on page 99 and 104 respectively of the Annual Report.

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

COMPLIANCE

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

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


By order of the Board'



Secretary to the Board
August 15, 2022

Financial Reports





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121	STATEMENT OF FINANCIAL POSITION
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125	NOTES TO THE FINANCIAL STATEMENTS

Auditor General's Report



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல. } BAN/E/RDB/1/2021/07
My No. }

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உமது இல. }
Your No. }

දිනය
திகதி } 29 August 2022
Date }

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.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව



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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.

AUDITOR GENERAL'S REPORT



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;

AUDITOR GENERAL'S REPORT



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

- 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

Income Statement

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 125 to 206.

Statement of Comprehensive Income

Year ended 31 December 2021	Note	2021	2020
		Rs.	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.

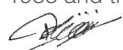
The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 125 to 206.

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		2,636,433,521	2,449,318,947
Other reserves	37	3,931,880,743	3,855,305,066
Total shareholders' equity		15,393,322,327	15,114,316,940
Total equity and liabilities		245,889,511,562	221,109,150,523
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 125 to 206.

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



P.S. Edirisuriya
Chief Financial Officer



A.H.M.M.B. Jayasinghe
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
Colombo

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
Gratuity 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

Year ended 31 December 2021	Note	2021 Rs.	2020 Rs.
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

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 125 to 206.

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 125 to 206.

Notes to the Financial Statements

1. GENERAL INFORMATION

1.1 REPORTING ENTITY

Pradeshiya Sanwardhana 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 Sanwardhana Bank. The Bank was established as a statutory body under the Pradeshiya Sanwardhana 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 Sanwardhana 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.

NOTES TO THE FINANCIAL STATEMENTS

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 Sanwardhana 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.

NOTES TO THE FINANCIAL STATEMENTS

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 amortized 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

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 recognized 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 amortized 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 recognized in the income statement.

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

5.1.2.2.2 FINANCIAL LIABILITIES AT AMORTIZED COST

Financial instruments issued by the Bank that are not designated at fair value through profit or loss, are classified as liabilities at amortized 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 amortized cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortized cost using the EIR method. Amortized 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 amortization is included in "interest expenses" in the income statement. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization 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 POCL.

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

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 as 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.

NOTES TO THE FINANCIAL STATEMENTS

5.2 PROPERTY, PLANT 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 derecognition 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 standalone 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

An 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 and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

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

NOTES TO THE FINANCIAL STATEMENTS

- 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 taxed 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.

NOTES TO THE FINANCIAL STATEMENTS

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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

NOTES TO THE FINANCIAL STATEMENTS

9. NET FEE AND COMMISSION INCOME

Year ended 31 December	2021	2020
	Rs.	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)

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

NOTES TO THE FINANCIAL STATEMENTS

15. INCOME TAX EXPENSE

15.1 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021	2020
	Rs.	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

Year ended 31 December	2021		2020	
	%	Rs.	%	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 Mn. 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
	Rs.	Rs.
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

NOTES TO THE FINANCIAL STATEMENTS

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.	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

As at 31 December	2021	2020
	Rs.	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

NOTES TO THE FINANCIAL STATEMENTS

19. PLACEMENTS WITH BANKS

As at 31 December	2021	2020
	Rs.	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

As at 31 December	2021	2020
	Rs.	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

As at 31 December 2021	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

As at 31 December	2021	2020
	Rs.	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

21.1.1 BY PRODUCT

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31 December	2021	2020
	Rs.	Rs.
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

21.2 EXPECTED CREDIT LOSS ALLOWANCE

21.2.1 INDIVIDUAL IMPAIRMENT

As at 31 December	2021	2020
	Rs.	Rs.
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

NOTES TO THE FINANCIAL STATEMENTS

21.2.2 COLLECTIVE IMPAIRMENT

As at 31 December	2021	2020
	Rs.	Rs.
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	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	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	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	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

22. FINANCIAL ASSETS AT AMORTISED COST-DEBT AND OTHER INSTRUMENTS

As at 31 December	2021	2020
	Rs.	Rs.
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

NOTES TO THE FINANCIAL STATEMENTS

22.1 QUOTED DEBENTURES

	2021			2020		
	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.
Commercial Bank of Ceylon PLC	-	-	-	5,000,000	500,000,000	516,934,932
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

22.2 INVESTMENT IN FIXED DEPOSITS

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31 December	2021	2020
	Rs.	Rs.
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

As at 31st December	2021			2020		
	No. of Shares/ Percentage	Cost of Investment Rs.	Market Value Rs.	No. of Shares/ Percentage	Cost of Investment Rs.	Market Value Rs.
CRIB	1,821	2,289,919	2,289,919	1,821	2,289,919	2,289,919
Total	1,821	2,289,919	2,289,919	1,821	2,289,919	2,289,919

NOTES TO THE FINANCIAL STATEMENTS

24. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2021	Land and Buildings	Leasehold properties	Computer Hardware	Office, Equipment, Furniture and Fittings
	Rs.	Rs.	Rs.	Rs.
Cost				
Opening balance as at 01 January 2021	635,090,898	-	710,527,368	1,340,256,705
Additions	65,792,724	-	68,789,187	33,912,730
Disposals	-	-	(13,464,028)	(16,876,877)
Written off	-	-	-	-
Transfers during the Year	-	-	-	(766,424)
Reclassification Adjustments	2,027,332	-	94,862	(66,999)
Closing balance as at 31 December 2021	702,910,953	-	765,947,389	1,356,459,136
Less: Accumulated depreciation				
Opening balance as at 01 January 2021	184,965,594	-	574,829,342	1,066,545,951
Charge for the year	24,258,278	-	60,926,671	111,692,802
Disposals	-	-	(13,424,381)	(16,026,373)
Written off	-	-	-	-
Transfers during the Year	-	-	-	(1,134,048)
Reclassification Adjustments	503,091	-	93,287	(148,516)
Closing balance as at 31 December 2021	209,726,962	-	622,424,920	1,160,929,816
Net book value as at 31 December 2021	493,183,991	-	143,522,470	195,529,320

As at 31 December 2020	Land and Buildings	Leasehold properties	Computer Hardware	Office, Equipment, Furniture and Fittings
	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
Additions	-	-	5,259,020	21,034,964
Disposals	-	-	(19,827,862)	(8,735,854)
Write off	(185,808)	-	-	-
Transfers during the Year	-	(6,540,518)	-	-
Reclassification Adjustments	-	-	(108,445)	380,500
Closing balance as at 31 December 2020	635,090,898	-	710,527,368	1,340,256,705
Less: Accumulated depreciation				
Opening balance as at 01 January 2020	160,113,172	3,869,817	526,354,256	941,786,408
Charge for the year	23,353,579	327,026	68,300,575	133,243,500
Disposals	-	-	(19,827,386)	(8,732,114)
Written off	-	-	-	-
Transfers during the Year	-	(2,698,000)	-	-
Reclassification Adjustments	1,498,842	(1,498,842)	1,897	248,157
Closing balance as at 31 December 2020	184,965,594	-	574,829,342	1,066,545,951
Net book value as at 31 December 2020	450,125,304	-	135,698,027	273,710,755

	Motor Vehicles	Work-In- Progress	Partition & Fittings	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
	409,400,481	5,156,066	393,628,535	819,424	3,494,879,478
	-	711,727	33,486,823		202,693,190
	(21,646,441)		(715,537)		(52,702,882)
	-	-	-		-
	-	-	-	(72,000)	(838,424)
	7,990	431,675	(2,695,098)		(200,238)
	387,762,031	6,299,468	423,704,723	747,424	3,643,831,124
	404,587,270	-	293,412,666	-	2,524,340,823
	3,611,667	-	43,130,616	-	243,620,034
	(23,545,018)	-	(579,847)	-	(53,575,618)
	-	-	-	-	-
	1,937,820	-	73,676	-	877,448
	7,990	-	(455,852)	-	(0)
	386,599,729	-	335,581,260		2,715,262,686
	1,162,302	6,299,468	88,123,463	747,424	928,568,438
	Motor Vehicles	Work-In- Progress	Partition & Fittings	Other	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
	409,392,411	1,859,276	385,201,289	819,424	3,491,871,376
	19,000	3,845,110	15,696,201	-	45,854,295
	(10,930)	-	(7,069,389)	-	(35,644,035)
	-	(116,645)	(199,567)	-	(502,020)
	-	-	-	-	(6,540,518)
	-	(431,675)	-	-	(159,620)
	409,400,481	5,156,066	393,628,535	819,424	3,494,879,478
	381,731,899	-	249,595,931	-	2,263,451,482
	22,866,299	-	49,949,300	-	298,040,278
	(10,928)	-	(5,904,265)	-	(34,474,692)
	-	-	-	-	-
	-	-	-	-	(2,698,000)
	-	-	(228,300)	-	21,754
	404,587,270	-	293,412,666	-	2,524,340,823
	4,813,211	5,156,066	100,215,869	819,424	970,538,655

NOTES TO THE FINANCIAL STATEMENTS

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 31st 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 Road, 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 - No. 734, 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 - No. 158, Hoolbrook, Agarapatana	10.8	1,598	August 17, 2012	540,000	720,000	1,260,000	708,000	552,000

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land Rs	Cost of Building Rs	Total Value Rs	Accumulated Depreciation Rs	Written down value Rs
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, Galenbindunuwewa	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 Road, Kurunegala	14.0	8,484	December 29, 2004	-	18,200,366	18,200,366	10,331,653	7,868,713
Polpithigama - Kurunegala Road, Polpithigama	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 Road, 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 Road, 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

NOTES TO THE FINANCIAL STATEMENTS

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land Rs	Cost of Building Rs	Total Value Rs	Accumulated Depreciation Rs	Written down value Rs
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 Road, 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 - No. 17, 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 31 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

NOTES TO THE FINANCIAL STATEMENTS

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	2020
	Rs.	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
	Rs.	Rs.
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
	Rs.	Rs.
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	2020
	Rs.	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

As at 31st December	2021	2020
	Rs.	Rs.
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 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	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

NOTES TO THE FINANCIAL STATEMENTS

28. OTHER ASSETS

As at 31st December	2021	2020
	Rs.	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

As at 31st December	2021	2020
	Rs.	Rs.
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	2020
	Rs.	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	2020
	Rs.	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	2020
	Rs.	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

30.1.1 BY PRODUCT

	2021	2020
	Rs.	Rs.
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

	2021	2020
	Rs.	Rs.
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

	2021	2020
	Rs.	Rs.
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

NOTES TO THE FINANCIAL STATEMENTS

31. DEBT SECURITIES ISSUED

	2021	2020
	Rs.	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	2020
	Rs.	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	Amortised Cost	
				2021	2020
			Rs.	Rs.	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		2020	
	Face Value	Amortised Cost	Face Value	Amortised Cost
	Rs.	Rs.	Rs.	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	2020
	Rs.	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	2020
	Rs.	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

NOTES TO THE FINANCIAL STATEMENTS

34. RETIREMENT BENEFIT OBLIGATION

As at 31st 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 31st 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 31st 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2021	Movement/ transfers	Closing balance as at 31 December 2021
	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
	Rs.	Rs.
Items in the Statement of Financial Position		
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 employees.	22,525,008	Property	206,650,000
Staff Vehicle Loans		32,476,614	Motor Vehicle	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

NOTES TO THE FINANCIAL STATEMENTS

Type of the Loan	Other Terms and Conditions	Balance as at 31.12.2020	Security Details 31.12.2020	
			Type	Value
Staff Housing Loans	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.	18,575,447	Land	195,800,000
Staff Vehicle Loans		37,272,753	Motor vehicle	84,321,912
Cash Backed Loans		664,942	Fixed Deposit	2,091,503
Consumptions and Other Loans		12,561,853		
		69,074,995		282,213,414

Total exposure to KMPs and their CFMs represents 0.3% of bank's regulatory 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 accommodation 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	Nature of Security	Value of Security	Balance as at 31 December 2021
		Rs. Mn.		Rs. Mn.	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	Nature of Security	Value of Security	Balance as at 31 December 2020
		Rs. Mn.		Rs. Mn.	Rs. Mn.
1.	Over Draft - BOC	1,326	FD 80912939	631.341	-
			FD 74353124	257.523	
			FD 82300125	242.000	
			FD 74817306	316.229	
			FD 74588793	294.968	
			FD 74619066	292.304	
2.	Over Draft - PB	200	FD- 014-60-01-00014391-8	458.271	-

NOTES TO THE FINANCIAL STATEMENTS

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 quantified below:

As at 31st December	2021	Total
	Rs.	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

As at 31 December	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 Sanwardhana Bank. The negative financial implications have been felt by the Industry including Pradeshiya Sanwardhana 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.

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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 authorisation 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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2021			
	Stage 1	Stage 2	Stage 3	Total
	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
Grade 3: NPA Special Mention	-	-	1,228,173,841	1,228,173,841
Grade 4: NPA Substandard	-	-	3,367,055,156	3,367,055,156
Grade 5: NPA Doubtful	-	-	2,223,011,575	2,223,011,575
Grade 6: NPA Loss	-	-	9,745,630,548	9,745,630,548
Total loans and receivables from other customers	157,928,510,574	14,241,187,466	16,869,968,380	189,039,666,420
Expected credit loss allowance	(2,530,819,723)	(3,038,214,893)	(7,370,100,371)	(12,939,134,987)
Net loans and receivables from other customers	155,397,690,851	11,202,972,573	9,499,868,009	176,100,531,433
Financial investments at amortised cost -				
Debt & other instruments				
Quoted debentures	623,946,610	-	-	623,946,610
Government debt securities - treasury bills & bonds	4,813,547,891	-	-	4,813,547,891
Investment in fixed deposits	49,420,476,709	-	-	49,420,476,709
Total debt and other instruments	54,857,971,211	-	-	54,857,971,211
Expected credit loss allowance	(1,760,892)	-	-	(1,760,892)
Net debt and other instruments	54,856,210,319	-	-	54,856,210,319
Placements with banks				
Money market placements	6,596,072,932	-	-	6,596,072,932
Total placements with banks	6,596,072,932	-	-	6,596,072,932
Expected credit loss allowance	-	-	-	-
Net placements with banks	6,596,072,932	-	-	6,596,072,932
Commitments and Contingencies*				
Bank Guarantee	177,766,966	-	-	177,766,966
Bills Send for Collection	51,429,192	-	-	51,429,192
Total commitments and contingencies	229,196,158	-	-	229,196,158
Expected credit loss allowance	(3,308,006)	-	-	(3,308,006)
Net commitments and contingencies	225,888,152	-	-	225,888,152

As at 31 December	2020			
	Stage 1	Stage 2	Stage 3	Total
	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised cost - Loans and receivables from other customers				
Grade 0-2 Performing Loans	119,285,034,714	20,078,064,947	11,141,167,650	154,094,224,085
Grade 3: NPA Special Mention	-	-	4,463,579,680	873,622,905
Grade 4: NPA Substandard	-	-	2,299,858,885	2,299,858,885
Grade 5: NPA Doubtful	-	-	1,905,298,067	1,905,298,067
Grade 6: NPA Loss	-	-	7,926,045,779	7,926,045,779
Total loans and receivables from other customers	119,285,034,714	20,078,064,947	27,735,950,061	167,099,049,722
Expected credit loss allowance	(1,680,593,572)	(1,263,209,626)	(6,734,872,826)	(9,678,676,023)
Net loans and receivables from other customers	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	1,025,565,069	-	-	1,025,565,069
Government debt securities - treasury bills & bonds	3,771,096,580	-	-	3,771,096,580
Investment in fixed deposits	42,167,885,800	-	-	42,167,885,800
Total debt and other instruments	46,964,547,449	-	-	46,964,547,449
Expected credit loss allowance	(2,193,312)	-	-	(2,193,312)
Net debt and other instruments	46,962,354,137	-	-	46,962,354,137
Placements with banks				
Money market placements	8,436,353,244	-	-	8,436,353,244
Total placements with banks	8,436,353,244	-	-	8,436,353,244
Expected credit loss allowance	-	-	-	-
Net placements with banks	8,436,353,244	-	-	8,436,353,244
Commitments and Contingencies*				
Bank Guarantee	138,447,168	-	-	138,447,168
Bills Sent for Collection	65,929,841	-	-	65,929,841
Total commitments and contingencies	204,377,009	-	-	204,377,009
Expected credit loss allowance	(2,042,296)	-	-	(2,042,296)
Net commitments and contingencies	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.

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

TREASURY, TRADING AND INTERBANK RELATIONSHIPS

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

SECTOR CLASSIFICATION OF LOANS

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

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

The highest sector under this classification as per the banks closing books, 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 5 Mn. of the total exposure.

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

- Customers below the Individually Significant threshold of LKR 5 Mn.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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:

As at 31 December	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%

NOTES TO THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

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

As at 31st December 2021	Carrying amount	Market risk measure	
		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

As at 31st December 2020	Carrying amount	Market risk measure	
		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.

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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 Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years 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 Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years 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)

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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.

As at 31 December	In Original Foreign Currency		Functional Currency of the Bank	
	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	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 support by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent 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.

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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.

NOTES TO THE FINANCIAL STATEMENTS

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

As at 31 December	Basel III	
	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 1 Capital	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 from 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 value 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.

NOTES TO THE FINANCIAL STATEMENTS

47.4 FINANCIAL INSTRUMENTS MEASURED 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
			Rs.	Rs.	Rs.
Financial assets					
Cash and cash equivalent	Level 2		1,486,878,989	1,486,878,989	3,758,858,141
Placements with Banks	Level 2		6,596,072,932	6,596,072,932	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
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
Staff loans	Level 2		4,614,968,345	4,470,424,793	4,122,588,706
Short-term	Level 2		9,989,450,293	9,989,450,293	10,307,093,390
Long-term	Level 2		153,291,882,926	95,480,281,792	136,274,370,012
Other assets	Level 2		3,721,641,936	3,721,641,936	1,788,634,829
			254,731,064,396	196,439,458,971	227,083,976,187
Financial liabilities					
Due to banks	Level 2		29,500,936,543	29,211,567,919	21,796,679,350
Due to other customers	Level 2		187,752,465,256	187,752,465,256	172,882,632,278
Debt issued and other borrowed funds	Level 2		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
			224,768,259,574	224,478,890,950	200,854,730,180

NOTES TO THE FINANCIAL STATEMENTS

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.

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Three Year Summary

Description	2021	2020	2019
	LKR	LKR	LKR
Profit & Loss			
Total Income	24,492,768,957	24,354,246,869	27,507,821,054
Interest Income	23,545,299,165	23,182,459,141	26,357,071,298
Interest Expenses	(9,893,373,234)	(12,294,380,832)	(13,903,881,276)
Net Interest Income	13,651,925,931	10,888,078,309	12,453,190,022
Net Other Income	635,357,741	899,852,505	872,445,458
Total operating income	14,287,283,672	11,787,930,814	13,325,635,480
Impairment loss on financial assets	(3,256,775,862)	(2,010,929,062)	(2,408,748,853)
Net operating income	11,030,507,810	9,777,001,752	10,916,886,627
Personal expenses	(7,292,269,883)	(5,983,362,037)	(5,931,625,972)
Depreciation and amortization expenses	(520,988,009)	(616,792,758)	(617,322,679)
Other expenses	(1,290,468,186)	(1,115,987,925)	(1,407,680,268)
Levy Paid to general treasury	-	-	-
Operating Profit	1,926,781,733	2,060,859,032	2,960,257,709
NBT	-	-	(123,625,704)
VAT on Financial Services	(1,151,277,133)	(1,047,410,630)	(1,012,948,950)
Debt repayment levy	-	-	(601,522,646)
Profit Before Taxation	775,504,600	1,013,448,401	1,222,160,409
Tax on Profit	(469,201,889)	(609,412,349)	(723,565,878)
Profit After Taxation	306,302,711	404,036,052	498,594,531
Assets			
Cash and cash equivalent	1,486,878,989	3,758,858,141	2,750,187,219
Placements with banks	6,596,072,932	8,436,353,244	9,798,242,492
Equity Instruments at fair value through profit or loss	188,140	145,160	123,000
Financial assets at amortised cost-Loans and receivables from other customers	175,229,666,656	156,694,052,473	136,205,641,441
Financial investments at amortised cost-Debt & other instruments	54,856,210,318	46,962,354,137	45,664,745,400
Equity Instruments at fair value through other comprehensive income	2,289,919	2,289,919	2,289,919
Property, plant and equipment	928,568,438	970,538,655	1,228,419,894
Intangible assets	113,688,780	21,272,699	45,356,343
Right of use assets	505,092,023	598,978,557	855,183,154
Deferred tax assets	1,263,795,071	903,720,969	696,316,484
Other assets	4,907,060,297	2,760,586,570	2,732,423,840
Total Assets	245,889,511,562	221,109,150,524	199,978,929,186
Liabilities			
Due to banks	29,500,936,543	21,796,679,350	22,050,009,005
Due to other customers	187,752,465,256	172,882,632,278	149,599,829,047
Debt issued and other borrowed funds	2,000,000,000	2,000,000,000	4,707,852,534
Current tax liabilities	503,021,886	378,203,555	448,881,448
Other liabilities	7,693,300,812	6,154,443,776	5,970,920,446
Retirement benefit obligation	3,046,464,739	2,782,874,624	2,236,115,128
Total Liabilities	230,496,189,235	205,994,833,583	185,013,607,608
Equity			
Stated capital	8,047,229,930	8,047,229,930	8,047,229,930
Statutory reserve fund	777,778,133	762,462,998	742,261,195
Retained earnings	2,636,433,521	2,449,318,947	2,421,534,400
Other reserves	3,931,880,743	3,855,305,066	3,754,296,053
Total shareholders' equity	15,393,322,327	15,114,316,941	14,965,321,578
Total equity and liabilities	245,889,511,562	221,109,150,524	199,978,929,186
Liquid Assets Ratio	26.18%	29.30%	32.38%
Capital Adequacy Ratio - AS per BASEL III			
Common Equity Tier 1 Capital Ratio	8.72%	10.34%	10.90%
Total Tier 1 Capital Ratio	8.72%	10.34%	10.90%
Total Capital Ratio	14.27%	14.94%	16.27%

Investor Information

UNLISTED DEBENTURE INFORMATION

Unsecured Subordinated Redeemable 5-years Debentures of Rs.100/-

Type	No. of Debentures	Face value (Rs.)	Amortized cost 2021 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
A	3,000,000	300,000,000	300,000,000	2017/03/31	2022/03/31	Fixed - 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	2017/03/31	2022/03/31	Fixed - 15.50% per annum payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000			

Instrument Rating : "BBB+" Negative, ICRA LANKA

SIGNIFICANT RATIOS

Ratios	31/12/2021	31/12/2020
Net Assets Value Per Share (Rs.)	28.24	27.73
Debt to Equity (%)	12.99%	13.23%
Interest Cover (Times)	2.63	2.68

SHARE INFORMATION

Shareholders	Current Year		Previous Year	
	31/12/2021		31/12/2020	
	No of Ordinary Shares	Holding as %	No of Ordinary Shares	Holding as %
General Treasury	495,758,027	91%	495,758,027	91%
Bank of Ceylon	16,448,448	3%	16,448,448	3%
Peoples Bank	16,448,448	3%	16,448,448	3%
National Savings Bank	16,452,126	3%	16,452,126	3%
	545,107,049		545,107,049	

Geographical Distribution of Branches

PROVINCES OF SRI LANKA

1. Northern Province
2. North Western Province
3. Sabaragamuwa Province
4. Eastern Province
5. Southern Province
6. North Central Province
7. Central Province
8. Western Province
9. Uva Province

DISTRICTS OF SRI LANKA

1. Jaffna District
2. Kilinochchi District
3. Mulaitivu District
4. Mannar District
5. Vavuniya District
6. Trincomalee District
7. Anuradhapura District
8. Puttalam District
9. Polonnaruwa District
10. Kurunegala District
11. Matale District
12. Kandy District
13. Kegalle District
14. Gampaha District
15. Nuwara Eliya District
16. Badulla District
17. Batticaloa District
18. Ampara District
19. Monaragala District
20. Ratnapura District
21. Colombo District
22. Kalutara District
23. Galle District
24. Matara District
25. Hambantota District

Northern Province	
Admin District	Branch Name
Jaffna	Chunnakam
Jaffna	Jaffna
Kilinochchi	Kilinochchi
Mannar	Mannar
Vavuniya	Vavuniya
Vavuniya	Kanakarayankulam
Vavuniya	Bogaswewa

Sabaragamuwa Province	
Admin District	Branch Name
Kegalle	Aranayake
Kegalle	Bulathkohupitiya
Kegalle	Dehiowita
Kegalle	Deraniyagala
Kegalle	Dewalegama
Kegalle	Hemmathagama
Kegalle	Kegalle
Kegalle	Kitulgala
Kegalle	Kotiyakumbura
Kegalle	Mawanella
Kegalle	Nelumdeniya
Kegalle	Pitagaldeniya
Kegalle	Rambukkana
Kegalle	Ruwanwella
Kegalle	Warakapola
Kegalle	Yatiyanthota
Rathnapura	Balangoda
Rathnapura	Eheliyagoda
Rathnapura	Embilipitiya
Rathnapura	Erathna
Rathnapura	Godakawela
Rathnapura	Kahawatta
Rathnapura	Kalawana
Rathnapura	Kiriella
Rathnapura	Kolonna
Rathnapura	Kuruvita
Rathnapura	Nivithigala
Rathnapura	Pelmadulla
Rathnapura	Pothupitiya
Rathnapura	Pulungupitiya
Rathnapura	Rakwana
Rathnapura	Rathnapura
Rathnapura	Sri Palabaddala
Rathnapura	Weligepola

North Western Province	
Admin District	Branch Name
Kurunegala	Alawwa
Kurunegala	Ambanpola
Kurunegala	Athugalpura
Kurunegala	Galgamuwa
Kurunegala	Giriulla
Kurunegala	Ibbagamuwa
Kurunegala	Kuliyapitiya
Kurunegala	Kurunegala
Kurunegala	Maho
Kurunegala	Mawathagama
Kurunegala	Melsiripura
Kurunegala	Narammala
Kurunegala	Nikaweratiya
Kurunegala	Panduwasnuwara
Kurunegala	Paragahadeniya
Kurunegala	Perakumpura
Kurunegala	Polpithigama
Kurunegala	Pothuhera
Kurunegala	Rideegama
Kurunegala	Wariyapola
Puttalam	Anamaduwa
Puttalam	Bowatta
Puttalam	Chilaw
Puttalam	Dummalasuriya
Puttalam	Kalpitiya
Puttalam	Kirimatiyana
Puttalam	Mahawewa
Puttalam	Mampuri
Puttalam	Mundel
Puttalam	Nattandiya
Puttalam	Nawagaththegama
Puttalam	Palakuda
Puttalam	Pannala
Puttalam	Puttalam
Puttalam	Santa Anapura
Puttalam	Wennappuwa

Eastern Province	
Admin District	Branch Name
Ampara	Akkaraipatthu
Ampara	Ampara
Ampara	Damana
Ampara	Dehiatthakandiya
Ampara	Kalmunai
Ampara	Mahaoya
Ampara	Nintavur
Ampara	Pothuwil
Ampara	Sammanthurai
Ampara	Uhana
Batticaloa	Batticaloa
Batticaloa	Batticaloa 2nd City
Batticaloa	Chenkalady
Batticaloa	Eravur
Batticaloa	Kaluwanchikudy
Batticaloa	Kattankudy
Batticaloa	Kokkaddicholai
Batticaloa	Valachchenai
Trincomalee	Kanthale
Trincomalee	Muththur
Trincomalee	Trincomalee
Trincomalee	Trincomalee 2nd City

Southern Province	
Admin District	Branch Name
Galle	Ahangama
Galle	Akmeemana
Galle	Baddegama
Galle	Balapitiya
Galle	Batapola
Galle	Elpitiya
Galle	Galle
Galle	Gonagalapura
Galle	Hikkaduwa
Galle	Imaduwa
Galle	Kaluwella
Galle	Karandeniya
Galle	Karapitiya
Galle	Neluwa
Galle	Pitigala

Southern Province	
Admin District	Branch Name
Galle	Thalgaswala
Galle	Udugama
Galle	Uragasmanhandiya
Galle	Yakkalamulla
Hambantota	Agunakolapelessa
Hambantota	Ambalantota
Hambantota	Barawakumbuka
Hambantota	Beliatta
Hambantota	Hambantota
Hambantota	Katuwana
Hambantota	Lunugamvehera
Hambantota	Middeniya
Hambantota	Ranna
Hambantota	Sooriyawewa
Hambantota	Tangalle
Hambantota	Thissamaharama
Hambantota	Walasmulla
Hambantota	Warapitiya
Hambantota	Weeraketiya
Matara	Akuressa
Matara	Deiyandara
Matara	Deniyaya
Matara	Devinuwara
Matara	Dikwella
Matara	Gandara
Matara	Hakmana
Matara	Kamburugamuwa
Matara	Kamburupitiya
Matara	Kekanadura
Matara	Kirinda
Matara	Matara City
Matara	Mawarala
Matara	Mirissa
Matara	Morawaka
Matara	Pamburana
Matara	Pitabeddara
Matara	Thihagoda
Matara	Urubokka
Matara	Weligama

North Central Province	
Admin District	Branch Name
Anuradhapura	Anuradhapura
Anuradhapura	Galenbidunuwewa
Anuradhapura	Galnewa
Anuradhapura	Gonapathirawa
Anuradhapura	Kahatagasdigiliya
Anuradhapura	Kekirawa
Anuradhapura	Madawachchiya
Anuradhapura	Mihinthale
Anuradhapura	New Town - Anuradhapura
Anuradhapura	Rambewa
Anuradhapura	Thalawa
Anuradhapura	Thambuththegama
Anuradhapura	Thambuththegama Town
Anuradhapura	Thirappane
Polonnaruwa	Aralaganwila
Polonnaruwa	Bakamoona
Polonnaruwa	Galamuna
Polonnaruwa	Hingurakgoda
Polonnaruwa	Kaduruwela
Polonnaruwa	Manampitiya
Polonnaruwa	Medirigiriya
Polonnaruwa	Polonnaruwa
Polonnaruwa	Pulasthigama
Polonnaruwa	Sewanapitiya
Polonnaruwa	Siripura

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Central Province	
Admin District	Branch Name
Kandy	Danture
Kandy	Daulagala
Kandy	Gampola
Kandy	Hataraliyadda
Kandy	Hedeniya
Kandy	Kandy
Kandy	Kandy 2nd City
Kandy	Katugastota
Kandy	Manikhinna
Kandy	Marassana
Kandy	Morayaya
Kandy	Nawalapitiya
Kandy	Peradeniya
Kandy	Pujapitiya
Kandy	Senkadagala
Kandy	Teldeniya
Kandy	Udawela
Kandy	Ududumbara
Kandy	Wattegama
Matale	Dambulla
Matale	Galewela
Matale	Laggala
Matale	Matale
Matale	Naula
Matale	Raththota
Matale	Wilgamuwa
Nuwara Eliya	Agarapathana
Nuwara Eliya	Ginigathhena
Nuwara Eliya	Hanguranketha
Nuwara Eliya	Kotagala
Nuwara Eliya	Nildandahinna
Nuwara Eliya	Nuwara Eliya
Nuwara Eliya	Pundaluoya
Nuwara Eliya	Rikillagaskada

Western Province	
Admin District	Branch Name
Colombo	Awissawella
Colombo	Homagama
Colombo	Kolonnawa
Colombo	Nugegoda
Colombo	Piliyandala
Gampaha	Divulapitiya
Gampaha	Gampaha
Gampaha	Ja Ela
Gampaha	Kelaniya
Gampaha	Kirindiwela
Gampaha	Mawaramandiya
Gampaha	Minuwangoda
Gampaha	Mirigama
Gampaha	Miriswatte
Gampaha	Negombo
Gampaha	Nittambuwa
Gampaha	Ragama
Kalutara	Bulathsinhala
Kalutara	Walagedara
Kalutara	Agalawatta
Kalutara	Millaniya
Kalutara	Gonapola
Kalutara	Moronthuduwa
Kalutara	Beruwala
Kalutara	Panadura
Kalutara	Horana
Kalutara	Warakagoda
Kalutara	Ingiriya
Kalutara	Dodangoda
Kalutara	Meegahatenna
Kalutara	Baduraliya
Kalutara	Kalutara
Kalutara	Moragahahena
Kalutara	Mathugama
Kalutara	Wadduwa

Uva Province	
Admin District	Branch Name
Badulla	Badulla
Badulla	Bandarawela
Badulla	Bogahakumbura
Badulla	Diyathalawa
Badulla	Girandurukotte
Badulla	Haldummulla
Badulla	Haputhale
Badulla	Kandeketiya
Badulla	Lunugala
Badulla	Mahiyangana
Badulla	Meegahakiwula
Badulla	Passara
Badulla	Rideemaliyadda
Badulla	Uva Maligathenna
Badulla	Uva Paranagama
Badulla	Welimada
Monaragala	Badalkumbura
Monaragala	Bibile
Monaragala	Buttala
Monaragala	Madulla
Monaragala	Medagama
Monaragala	Monaragala
Monaragala	Sevanagala
Monaragala	Siyambalanduwa
Monaragala	Thanamalvila
Monaragala	Wellaway

Corporate Information

REGISTERED NAME OF THE BANK

Pradeshiya Sanwardhana Bank

LEGAL STATUS

A licensed specialized bank established under Pradeshiya Sanwardhana Bank Act No. 41 of 2008

CREDIT RATING

“BBB+” Negative ICRA Lanka Limited

BOARD OF DIRECTORS

INDEPENDENT NON - EXECUTIVE DIRECTORS

MR. M. Mahinda Saliya - Chairman
MR. W.M. Karunaratne -Director
MR. M.S.D. Ranasiri
DR. Nirmal De Silva
Professor H.M.W. Ariyaratna Herath
MR. Lalith Abeysiriwardana
MRS. Hiranthi Karunaratne

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

MR. K. Raveendran
MS. V.K. Narangoda
MR. S. Fernando
MR. G.A. Jayashantha

GENERAL MANAGER/CEO

Mr. A.H.M.M.B. Jayasinghe

SECRETARY TO THE BOARD OF DIRECTORS

Mrs. R.M.T. Rajapaksha

NUMBER OF BRANCHES

272

HEAD OFFICE

No. 933, Kandy Road, Wedamulla, Kelaniya
Tel : +94112035454/+94112035455-9
Fax : +94112035467
E-mail : info@rdb.lk
Website : www.rdb.lk
Tax Payer Identification Number (TIN) : 409272339
VAT Reg No : 40927339-7000

AUDITORS

Auditor General
National Audit Office
No. 306/72, Polduwa Road, Battaramulla

PROVINCIAL OFFICES

NORTH CENTRAL PROVINCIAL OFFICE

No.65D, 4th Lane, Abaya Place , Anuradhapura.

UVA PROVINCIAL OFFICE

No. 1/315, Passara Road, Badulla.

SABARAGAMUWA PROVINCIAL OFFICE

No. 510, Colombo Road, Weralupa, Rathnapura.

SOUTHERN PROVINCIAL OFFICE

No. 28B, Esplanade Road, Uyanwatta, Matara.

CENTRAL PROVINCIAL OFFICES

No. 16, Dharmashoka Mawatha, Kandy.

WESTERN PROVINCIAL OFFICE

No. 36, Kandy Road, Miriswatta, Mudungoda.

NORTH WESTERN PROVINCIAL OFFICE

No. 155, Negambo Road, Kurunegala.

EASTERN PROVINCIAL OFFICE

No. 51A, New Kalmunai Road, Kaldy, Batticaloa.