ප්‍රාදේශීය සංවර්ධන බැංකුව
பிரதேச அபிவிருத்தி வங்கி
RDB Regional Development Bank

# AUDITED FINANCIAL STATEMENTS

## For the Year Ended 31st December 2023

මගේ අංකය / எனது இல. / My No. BAN/E/RDB/1/2023/28    ඔබේ අංකය / உமது இல. / Your No.    දිනය / திகதி / Date 30 May 2024

Chairman

Regional Development Bank

**Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Regional Development Bank for the year ended 31 December 2023 in terms of Section 12 of the National Audit Act, No. 19 of 2018.**

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## 1. Financial Statements

### 1.1 Opinion

The audit of the Financial Statements of the Regional Development Bank (the "Bank") for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including material accounting policy information, 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 and Finance Act No.38 of 1971. 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 of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2023, 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.    இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை.    No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34    +94 11 2 88 72 23    ag@auditorgeneral.gov.lk    www.naosl.gov.lk

### 1.3 Other information included in the Bank's 2023 Annual Report

The other information comprises the information included in the Bank's 2023 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 2023 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 determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bank is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic Financial Statements to be prepared of the Bank.

**1.5 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism 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 internal control of the Bank.

- 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 evidences obtained were limited to matters that are material, nothing has come to my attention;

2.2.1 to state that any member of the governing body of the Bank has any direct or indirect interest in any contract entered into by the Bank which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Bank has not complied with any applicable written law, general and special directions issued by the governing body of the Bank as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018.

2.2.3 to state that the Bank has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

2.2.4 to state that the resources of the Bank had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
Auditor General

PRADESHIYA SANWARDANA BANK

## STATEMENT OF PROFIT OR LOSS

**Year ended 31 December 2023**

| | Note | 2023 Rs. | 2022 Rs. |
|---|---|---|---|
| Gross income | 7 | **47,586,934,542** | 36,202,749,629 |
| Interest income | | **46,232,790,959** | 35,273,433,857 |
| Interest expenses | | **(29,289,826,032)** | (19,639,529,550) |
| **Net interest income** | 8 | **16,942,964,926** | 15,633,904,307 |
| | | | |
| Fee and commission income | | **1,572,076,450** | 806,547,782 |
| Fee and commission expenses | | **(409,406,671)** | (355,184,923) |
| **Net fee and commission income** | 9 | **1,162,669,779** | 451,362,859 |
| | | | |
| Net trading gain/(loss) | 10 | **(234,954,348)** | 102,296,546 |
| Other operating income (net) | 11 | **17,021,481** | 20,471,444 |
| **Total operating income** | | **17,887,701,838** | 16,208,035,156 |
| Impairment charges | 12 | **(2,162,850,997)** | (2,852,677,176) |
| **Net operating income** | | **15,724,850,842** | 13,355,357,980 |
| | | | |
| **Less-Operating expenses** | | | |
| Personnel expenses | 13 | **(9,550,728,566)** | (8,739,537,602) |
| Depreciation and amortization expenses | | **(592,566,813)** | (532,733,987) |
| Other expenses | 14 | **(2,073,288,768)** | (2,084,970,281) |
| **Operating profit before taxes** | | **3,508,266,695** | 1,998,116,109 |
| Less : Value Added Tax on Financial Services | | **(2,066,232,496)** | (1,561,474,848) |
| Social Security Contribution Levy | | **(258,613,077)** | (77,525,933) |
| **Profit before Income tax expense** | | **1,183,421,122** | 359,115,329 |
| Income tax (expense) /reversal | 15 | **(319,903,305)** | 990,279,323 |
| **Profit for the year** | | **863,517,816** | 1,349,394,652 |
| | | | |
| **Earnings per share** | | | |
| Basic Earnings per share | 16.1 | **1.54** | 2.45 |
| Diluted Earnings per share | 16.2 | **1.54** | 2.45 |

*Figures in brackets indicate deductions.*

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

**STATEMENT OF COMPREHENSIVE INCOME**
**Year ended 31 December 2023**

| | Note | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|---|
| **Profit for the year** | | **863,517,816** | 1,349,394,652 |
| **Other Comprehensive income/(expenses)** | | | |
| **Other Comprehensive income not to be reclassified to profit or loss** | | | |
| Actuarial gain on retirement benefit obligation | 33.3 | **680,109,258** | 156,249,438 |
| Deferred tax effect on above | 27.1 | **(204,032,777)** | (46,874,831) |
| **Total Other Comprehensive income for the year, net of taxes** | | **476,076,481** | 109,374,607 |
| **Total comprehensive income for the year** | | **1,339,594,297** | 1,458,769,259 |

*Figures in brackets indicate deductions.*

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

PRADESHIYA SANWARDANA BANK

## STATEMENT OF FINANCIAL POSITION

**As at 31 December 2023**

| | Note | 2023 Rs. | 2022 Rs. |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalent | 18 | **104,444,214** | 2,889,883,677 |
| Placements with banks | 19 | **6,005,330,402** | 6,133,705,351 |
| Equity instruments at fair value through profit or loss | 20 | **145,820** | 120,280 |
| Financial assets at amortised cost - Loans and receivables from other customers | 21 | **194,424,888,169** | 198,008,145,156 |
| Financial assets at amortised cost - Debt & other instruments | 22 | **86,964,714,682** | 65,079,635,909 |
| Equity instruments at fair value through other comprehensive income | 23 | **2,290,929** | 2,289,919 |
| Property, plant and equipment | 24 | **1,161,828,361** | 926,615,241 |
| Intangible assets | 25 | **112,402,355** | 68,867,744 |
| Right of use assets | 26.1 | **860,244,061** | 718,096,698 |
| Deferred tax assets | 27 | **2,960,017,044** | 3,525,174,917 |
| Current tax assets | 31 | **503,589,580** | - |
| Other assets | 28 | **6,617,542,021** | 8,042,615,550 |
| **Total assets** | | **299,717,437,639** | 285,395,150,442 |
| **Liabilities** | | | |
| Due to banks | 29 | **46,208,479,283** | 47,470,707,056 |
| Due to other customers | 30 | **226,079,614,772** | 210,301,323,468 |
| Current tax liabilities | 31 | - | 1,011,924,146 |
| Other liabilities | 32 | **6,734,044,304** | 7,293,487,261 |
| Retirement benefit obligation | 33 | **2,829,577,605** | 3,091,581,136 |
| **Total liabilities** | | **281,851,715,965** | 269,169,023,067 |
| **Equity** | | | |
| Stated capital | 34 | **8,521,864,568** | 8,221,864,565 |
| Statutory reserve fund | 35 | **888,423,757** | 845,247,866 |
| Retained earnings | | **3,970,324,488** | 2,889,785,536 |
| Other reserves | 36 | **4,485,108,861** | 4,269,229,407 |
| **Total shareholders' equity** | | **17,865,721,674** | 16,226,127,375 |
| **Total equity and liabilities** | | **299,717,437,639** | 285,395,150,442 |
| **Contingent liabilities and commitments** | 39 | **612,027,693** | 380,380,046 |

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

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

.................................................
P.S.Edirisuriya
Chief Financial Officer

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P.S.Edirisuriya
General Manager / CEO (Acting)

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

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

.................................................
Director

29 May 2024
Colombo

PRADESHIYA SANWARDANA BANK

**STATEMENT OF CHANGES IN EQUITY**

**Year ended 31 December 2023**

| | Stated Capital<br>Note 34<br>Rs. | Statutory Reserve Fund<br>Note 35<br>Rs. | Special Reserve Fund<br>Note 36<br>Rs. | General Reserve Fund<br>Note 36<br>Rs. | Retained Earnings<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|---|---|
| **Balance as at 01st January 2022** | 8,047,229,930 | 777,778,134 | 632,168,461 | 3,299,712,282 | 2,636,433,521 | 15,393,322,328 |
| Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 (Note 15.5) | | | | | (800,598,847) | (800,598,847) |
| **Adjusted balance as at 1st January 2022** | **8,047,229,930** | **777,778,134** | **632,168,461** | **3,299,712,282** | **1,835,834,674** | **14,592,723,481** |
| **Total Comprehensive Income for the year** | | | | | | |
| Profit for the year | - | - | - | - | 1,349,394,652 | 1,349,394,652 |
| Other comprehensive Income, net of tax | - | - | - | - | 109,374,607 | 109,374,607 |
| **Total comprehensive income for the year** | - | - | - | - | 1,458,769,259 | 1,458,769,259 |
| **Transactions with equity holders, recognized directly in equity** | | | | | | |
| Issued stated capital | 174,634,635 | | | | | 174,634,635 |
| Transferred to Statutory Reserve Fund | - | 67,469,733 | - | - | (67,469,733) | - |
| Transferred to Special Reserve Fund | - | - | 67,469,734 | - | (67,469,734) | - |
| Transferred to General Reserve Fund | - | - | - | 269,878,930 | (269,878,930) | - |
| **Transactions with equity holders, recognized directly in equity** | 174,634,635 | 67,469,733 | 67,469,734 | 269,878,930 | (404,818,397) | 174,634,635 |
| **Balance as at 31st December 2022** | **8,221,864,565** | **845,247,866** | **699,638,195** | **3,569,591,213** | **2,889,785,536** | **16,226,127,375** |
| **Balance as at 01st January 2023** | **8,221,864,565** | **845,247,866** | **699,638,195** | **3,569,591,213** | **2,889,785,536** | **16,226,127,375** |
| **Total Comprehensive Income for the year** | | | | | | - |
| Profit for the year | - | - | - | - | **863,517,816** | **863,517,816** |
| Other comprehensive Income, net of tax | - | - | - | - | **476,076,481** | **476,076,481** |
| **Total comprehensive income for the year** | - | - | - | - | **1,339,594,297** | **1,339,594,297** |
| **Transactions with equity holders, recognized directly in equity** | | | | | | |
| Issued stated capital | **300,000,002** | - | - | - | - | **300,000,002** |
| Transferred to Statutory Reserve Fund | - | **43,175,891** | - | - | **(43,175,891)** | - |
| Transferred to Special Reserve Fund | - | - | **43,175,891** | - | **(43,175,891)** | - |
| Transferred to General Reserve Fund | - | - | - | **172,703,563** | **(172,703,563)** | - |
| **Transactions with equity holders, recognized directly in equity** | **300,000,002** | **43,175,891** | **43,175,891** | **172,703,563** | **(259,055,345)** | **300,000,002** |
| **Balance as at 31st December 2023** | **8,521,864,568** | **888,423,757** | **742,814,085** | **3,742,294,776** | **3,970,324,488** | **17,865,721,674** |

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

**STATEMENT OF CASH FLOWS**

**Year ended 31 December 2023**

| | Note | 2023 Rs. | 2022 Rs. |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | **1,183,421,122** | 359,115,328 |
| Adjustment for: | | | |
| **Non-cash items included in profit before tax** | | | |
| Depreciation of property, plant and equipment/ Amortization of ROU | 24 | **542,099,465** | 487,812,469 |
| Amortization of intangible assets | 25 | **62,778,029** | 46,808,061 |
| Interest expense on leases | 26.2 | **40,069,770** | 49,991,183 |
| Interest expense on debentures | | **-** | 76,176,663 |
| Dividend income | 10 | **(3,279,463)** | (4,384,680) |
| Impairment charges | 12 | **2,162,850,997** | 2,852,677,176 |
| Changes in equity Instruments at fair value through profit or loss | 10 | **(25,540)** | 67,860 |
| Exchange gain/ (loss) | 10 | **238,259,352** | (97,979,726) |
| Charge for retirement benefit obligation | 33.1 | **708,495,411** | 567,113,577 |
| (Profit) / loss on sale of Property, plant and equipment | 11 | **1,221,778** | 93,147 |
| Recoveries of NPL loans (Written Off) | 11 | **(118,139)** | (411,274) |
| **Changes in operating assets** | | | |
| Net change in loans and receivables from other customers | | **1,459,264,921** | (25,603,792,299) |
| Net Change in other assets | | **812,427,181** | (3,150,740,674) |
| Net change in Financial investments at amortised cost-Debt & other instruments | | **5,221,585,855** | (6,566,581,516) |
| **Changes in operating liabilities** | | | |
| Net change in due to banks | | **2,341,574,441** | 1,875,544,521 |
| Net change in due to other customers | | **15,778,291,304** | 22,548,858,212 |
| Net change in other liabilities | | **(921,288,969)** | (651,469,639) |
| Gratutiy paid | | **(276,188,475)** | (66,254,402) |
| Taxes on financial services | | | - |
| Tax Paid | | **(1,474,291,933)** | (1,609,671,945) |
| **Net cash generated from/(used in) operating activities** | | **27,877,147,105** | (8,887,027,959) |
| **Cash flows from investing activities** | | | |
| Purchase of Property, plant and equipment | 24 | **(462,912,300)** | (207,875,911) |
| Purchase of intangible assets | 25 | **(106,975,432)** | (1,987,025) |
| Investment in Fixed deposits (more than three months) | 22.2 | **6,583,774,836** | (17,403,319,430) |
| Proceeds from the sale of property, plant and equipment | | **1,221,778** | (779,590) |
| Dividend Income Received | 10 | **3,279,463** | 4,384,680 |
| **Net cash (used in)/from investing activities** | | **6,018,388,346** | (17,609,577,276) |
| **Cash flows from financing activities** | | | |
| Payment of principal of Operating Lease | 26.2 | **(361,732,641)** | (327,195,209) |
| Net proceeds from the Term Loans | 29 | **(1,262,227,773)** | 15,494,249,151 |
| Redemption of Debentures | | **-** | (2,000,000,000) |
| Interest paid on debentures | | **-** | (76,176,663) |
| **Net cash from financing activities** | | **(1,623,960,415)** | 13,090,877,278 |
| **Net increase/(decrease) in cash & cash equivalents** | | **32,271,575,036** | (13,405,727,957) |
| Cash & cash equivalents at the beginning of the year | | **30,165,020,556** | 43,570,748,513 |
| **Cash and cash at the end of the year** | | **62,436,595,592** | 30,165,020,556 |
| **Reconciliation of Cash & Cash Equivalents** | | | |
| Cash and cash equivalent | 18 | **1,761,270,949** | 2,889,883,677 |
| Favorable balances with banks | | | |
| Placements with Banks | | **61,128,549,024** | 6,133,705,350 |
| Fixed deposits less than three months | 22.2 | **1,203,602,353** | 21,726,025,221 |
| Unfavorable balances with banks | | **(1,656,826,734)** | (584,593,693) |
| | | **62,436,595,592** | 30,165,020,556 |

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 06 to 72.

## 1. GENERAL INFORMATION

### 1.1 Reporting Entity

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

Permanent, training and contract staff strength of the bank as at 31 December 2023 was 3,279 (3,980 as at 31 December 2022).

### 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 2023 were authorized for issue by the Board of Directors on 29 May 2024.

## 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 2023 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs), laid down by the Institute of

Chartered Accountants of Sri Lanka, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto.

### 2.3 Functional and Presentation Currency

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

### 2.4 Materiality and Aggregation

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

### 2.5 Offsetting

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

### 2.6 Comparative Information

The comparative information is reclassified whenever necessary to confirm 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 42.

## 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.

**(i) Judgements**

**(a) Classification of Financial Assets**

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

**(b) Assessment of Credit Risk**

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

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

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.

- The segmentation of financial assets when their ECL is assessed on a collective basis.

- Development of ECL models, including the various formulas and the choice of inputs Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

**(c) Business combinations under common control**

Business combinations between entities under common control are accounted for using pooling of interest method. Accordingly, the assets and liabilities of the combining entities are reflected at their carrying amounts. No new goodwill is recognized as a result of the combination. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity.

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

### (ii) Assumptions and Estimation Uncertainty

**Going Concern**

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

**Fair value of financial instruments**

When the fair value of financial assets and financial liabilities, recorded in the Statement of Financial Position cannot be derived from active markets, they are determined using a 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 31.

**Measurement of Defined Benefit Obligations**

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

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

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and the 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 2023, 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 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 fair value through profit or loss (FVTPL), as explained in (Note 5.1.2.1.2)
- Financial assets measured at fair value through other comprehensive income (Note 5.1.2.1.3)

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

### 5.1.2.1.2 Financial assets fair value through profit or loss (FVTPL)

Financial assets fair value through profit or loss comprises:

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

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.

Investments 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 (FVTOCI)**

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 FVTOCI are not subject to an impairment assessment.

**5.1.2.2 Financial liabilities**

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

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

- Financial liabilities at Fair Value through Profit or Loss (FVTPL) (Note 5.1.2.2.1)
  - Financial liabilities held for trading.
  - Financial liabilities designated at fair value through profit or loss.
- Financial liabilities at amortised cost (Note 5.1.2.2.2)

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

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

**5.1.2.2.2 Financial liabilities at amortised cost**

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

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

This category consists of due to Banks, Due to other customers, and Debt issued and another 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 2023.

**5.1.2.4 De-recognition of financial assets and liabilities**

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

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

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

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

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

**De-recognition other than for substantial modification**

**Financial assets**

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

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

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

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

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

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

A transfer only qualifies for de-recognition if either:

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred assets 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**

The 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-month 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 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

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

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

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

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

**Calculations of ECL for individually significant loans**

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

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

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

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

- The likely dividend available on liquidation or bankruptcy

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

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

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

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

**Forward looking information**

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

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

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

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

### 5.1.3 Collateral valuation

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

#### 5.1.3.1 Collateral repossessed.

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

### 5.1.4 Write-offs

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

### 5.1.5 Forborne and modified loans

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

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

### 5.1.6 Foreclosed Properties

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

### 5.1.7 Offsetting Financial Instruments

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

## 5.2 Property, 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 | 20 Years |
| Computer Equipment | 05 Years |
| Office Equipment | 05 Years |
| Motor Vehicles | 05 Years |
| Furniture | 06 Years |
| Iron Safes | 10 Years |
| Partition and fittings | 05 Years |

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

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

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

## 5.3 Leases

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

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

### 5.3.1 Bank acting as a lessee.

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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

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

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

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

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

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

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

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

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

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

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

### 5.3.2 Bank acting as a lessor.

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

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

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

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

## 5.4 Intangible Assets

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

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

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

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

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

- Computer software : 3 Years

## 5.5 Impairment of Non–financial Assets

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

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

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

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

## 5.6 Financial Guarantees

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

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

## 5.7 Retirement Benefit Obligation

### 5.7.1 Defined Benefit Pension Plan-Gratuity

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

### 5.7.2 Gratuity

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

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31st December 2023 by Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary using the projected unit credit method.

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

Funding Arrangements: The Gratuity liability is not externally funded.

### 5.7.3 Defined Contribution Pension Plan

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

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

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

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

## 5.8 Provisions

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

## 5.9 Recognition of Income and Expenses

### 5.9.1 Interest Income and Expense

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

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

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

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

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

### 5.9.2 Fees and Commission Income

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

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

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

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

### 5.9.3 Net Gains/ (Losses) from Trading

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

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

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

## 5.10 Taxation

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

### 5.10.1 Current Tax

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

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

### 5.10.2 Deferred Tax

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

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

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

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

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

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

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

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

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

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

### 5.10.3 VAT on Financial Services

The value base for Value Added Tax (VAT) for the Bank is the adjusted accounting profit before tax, emoluments of employees and economic depreciation computed for the owned fixed assets. The total value addition arrived for the entire bank has to be apportioned in accordance to the applicable turnover; turnover has to be quantified in line with the turnover applicable for general VAT and VAT on Financial Services. The Value Addition Attributable for Financial Services" shall be derived with the application of the turnover ratio distinguishing general VAT and VAT on Financial Services. Tax fraction 18/120.5 shall be applied 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 15% tax deduction in the hands of the dividend recipient (individuals are taxed at the progressive tax rates, 6%, 12% ,18%,24%,30% and balance 36%). 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.

### 5.10.5 Social Security Contribution Levy (SSCL)

SSCL on financial services is calculated based on the total value addition used for the purpose of VAT on financial services in accordance with the Social Security Contribution Act, No.25 of 2022 from 1 October 2022. The bank is liable to pay SSCL on financial services at the rate of 2.5% on the value addition attributable to the supply of the financial services.

### 5.10.6 Crop Insurance Levy (CIL)

As per the provisions of 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.

### 5.10.7 IFRIC 23 - Uncertainty over income tax treatment

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

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

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

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

### 5.11 Dividends on Ordinary Shares

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

### 5.12 Earnings per Share (EPS)

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

### 5.13 SLFRS 15 – Revenue from Contracts with Customers

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

- Identify the contract(s) with a customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.

- Recognize revenue when (or as) the entity satisfies a performance obligation.

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

### 5.14 Statement of Cash Flow

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

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

### 5.15 Reserves

#### 5.15.1 Statutory Reserve Fund

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

#### 5.15.2 General Reserve Fund

The general reserve is the result of the Bank transferring a certain amount of profit from retained earnings accounts to the 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 the Special Reserve account. The purpose of setting up 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 2024. Accordingly, the following new and amended standards are not expected to have a significant impact on the Bank’s Financial Statements.

### 6.1. Insurance Contracts (SLFRS 17)

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. SLFRS 17 is effective for annual report periods beginning on or after 1 January 2025. The Bank expects that the implementation of this standard may not have a material impact on the financial statements of the Bank.

## 7 GROSS INCOME

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Interest income **(Note 8.1)** | **46,232,790,959** | 35,273,433,857 |
| Fee and commission income **(Note 9)** | **1,572,076,450** | 806,547,782 |
| Net trading gain/(loss) **(Note 10)** | **(234,954,348)** | 102,296,546 |
| Other operating income **(Note 11)** | **17,021,481** | 20,471,444 |
| **Total Gross Income** | **47,586,934,542** | 36,202,749,629 |

## 8 NET INTEREST INCOME

### 8.1 Interest Income

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Placements with banks | **1,166,651,725** | 760,952,114 |
| Financial assets at amortised cost | | |
| Loans and receivables from other customers | **32,217,022,242** | 25,287,684,763 |
| Debt & other instruments | **12,849,116,992** | 9,224,796,980 |
| **Total interest income** | **46,232,790,959** | 35,273,433,857 |

### 8.2 Interest expense

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Due to banks | **(3,015,879,185)** | (2,149,689,728) |
| Due to other customers | **(26,233,102,258)** | (17,607,209,517) |
| Interest expense on lease liabilities | **(40,844,590)** | 117,369,695 |
| **Total interest expenses** | **(29,289,826,032)** | (19,639,529,550) |
| **Net interest income** | **16,942,964,926** | 15,633,904,307 |

## 9 NET FEE AND COMMISSION INCOME

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Fee and commission income | **1,572,076,450** | 806,547,782 |
| Fee and commission expenses | **(409,406,671)** | (355,184,923) |
| **Net fee and commission income** | **1,162,669,779** | 451,362,859 |
| **Comprising** | | |
| Loans | **1,071,934,838** | 709,899,122 |
| Trade and remittances | **12,417,741** | 9,638,064 |
| Deposits | **(363,319,354)** | (320,973,518) |
| Others | **441,636,553** | 52,799,191 |
| **Net fee and commission income** | **1,162,669,779** | 451,362,859 |

## 10 NET TRADING GAIN/(LOSS)

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Financial assets recognised through profit or loss - fair value change | **25,540** | (67,860) |
| Exchange (loss)/ gain | **(238,259,352)** | 97,979,726 |
| Dividend income | **3,279,463** | 4,384,680 |
| **Total** | **(234,954,348)** | 102,296,546 |

## 11 NET OTHER OPERATING INCOME

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Gain/ (Loss) on disposal of property, plant and equipment | **1,221,778** | 93,147 |
| Recovery of loans written off | **118,139** | 411,274 |
| Other income | **15,681,564** | 19,967,023 |
| **Total** | **17,021,481** | 20,471,444 |

## 12 IMPAIRMENT CHARGES

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Financial assets at amortised cost - Loans and receivables from other customers **(Note 21.2)** | **(2,124,110,205)** | (2,848,036,496) |
| Financial assets measured at amortised cost - debt and other instruments **(Note 22.3)** | **466,924** | (1,065,829) |
| Undrawn credit commitments and financial guarantees **(Note 39.1.1)** | **(39,207,716)** | (3,574,850) |
| **Net impairment (charge) / reversal for loans and other losses** | **(2,162,850,997)** | (2,852,677,176) |

## 13 PERSONNEL EXPENSES

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Salary and bonus | **5,969,282,386** | 5,596,751,248 |
| Contributions to EPF/ETF | **873,336,033** | 872,212,354 |
| Contributions to defined benefit plans | **730,744,301** | 620,181,014 |
| Others | **1,977,365,846** | 1,650,392,987 |
| **Total** | **9,550,728,566** | 8,739,537,602 |

## 14 OTHER EXPENSES

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Directors' emoluments | **1,992,667** | 4,248,060 |
| Auditors' remunerations | **3,000,000** | 2,285,841 |
| Professional and legal expenses | **3,407,807** | 21,347,210 |
| Office administration and establishment expenses | **1,654,932,566** | 1,396,364,812 |
| Computerization expenses | **175,457,973** | 436,221,334 |
| Business tax expenses | **1,698,544** | 1,636,420 |
| Other commission paid | **248,351** | 335,352 |
| Deposit Insurance Premium | **216,390,450** | 203,169,932 |
| Crop insurance levy | **8,635,031** | 13,551,052 |
| Staff security deposits interest | **7,492,218** | 5,814,102 |
| Capital loss on pawning advance | **33,162** | (3,834) |
| **Total** | **2,073,288,768** | 2,084,970,281 |

## 15 INCOME TAX EXPENSE

### 15.1 Amounts Recognised in Profit or Loss

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| **Current Tax Expense** | | |
| Tax on current year's profits **(Note 15.3)** | **129,272,120** | 1,301,405,280 |
| Under/(Over) provision in respect of previous years | **(170,493,912)** | 16,570,076 |
| | **(41,221,792)** | 1,317,975,356 |
| **Deferred Tax Expense** | | |
| Reversal on temporary differences **(Note 27.2)** | **361,125,098** | (2,308,254,679) |
| | **361,125,098** | (2,308,254,679) |
| **Total income tax expense recognised in profit or loss** | **319,903,305** | (990,279,323) |

### 15.2 Amounts Recognised in Other Comprehensive Income

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| **Deferred Tax Expense** | | |
| Reversal on temporary differences **(Note 27.2)** | **204,032,777** | 46,874,831 |
| **Total income tax expense recognised in other comprehensive income** | **204,032,777** | 46,874,831 |

### 15.3 Reconciliation of the accounting profit to income tax expense

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| **Profit before income tax expense** | **1,183,421,122** | 359,115,328 |
| Exempt income | | |
| Interest Income | **(2,625,748,733)** | (1,705,392,315) |
| Add : Disallowable expenses | **6,841,510,876** | 6,902,036,608 |
| Less : Allowable expenses | **(4,968,276,200)** | (733,790,790) |
| **Taxable Income from Business** | **430,907,065** | 4,821,968,832 |
| Tax liability for the year ending | **30%/15%** | 30%/15% |
| Tax @ 30% | **129,272,120** | 1,300,747,721 |
| Tax @ 15% | **-** | 657,559 |
| **Tax on current year's profits** | **129,272,120** | 1,301,405,280 |
| Deferred tax reversal **(Note 27.2)** | **361,125,098** | (2,308,254,679) |
| Under/(Over) provision in respect of previous years | **(170,493,912)** | 16,570,076 |
| **Income tax expense** | **319,903,305** | (990,279,323) |
| **Effective current tax rate** | **27.03%** | -275.76% |

### 15.4 Reconciliation of effective tax rate

| | 2023 % | 2023 Rs. | 2022 % | 2022 Rs. |
|---|---|---|---|---|
| Profit before income tax expense | | **1,183,421,122** | | 359,115,328 |
| Income tax for the period | **30.00%** | **355,026,336** | 27.00% | 96,961,139 |
| Tax effect of expenses that are not deductible for tax purposes | **173.43%** | **2,052,453,263** | 518.93% | 1,863,549,884 |
| Tax effect of expenses that are deductible for tax purposes | **-125.95%** | **(1,490,482,860)** | -55.50% | (199,307,377) |
| Exempt income | **-66.56%** | **(787,724,620)** | -128.22% | (460,455,925) |
| Tax on Dividend Income | **0.00%** | **-** | 0.18% | 657,559 |
| Deferred tax reversal **(Note 27.2)** | **30.5%** | **361,125,098** | -642.8% | (2,308,254,679) |
| (Over)/ under provision in respect of previous years | **-14.41%** | **(170,493,912)** | 4.61% | 16,570,076 |
| **Total Income Tax Expense** | **27.03%** | **319,903,305** | -275.76% | (990,279,323) |

Except for the Dividend income receipts, current tax on profits from Banking and Leasing businesses has been computed at the rate of 30% for the year of assesment, dividend income taxed at the rate of 15%. Apart from that, Interest received on Foreign currency accounts are exempted from Income Tax.

The Bank applied the revised rate of 30% in line with the inland revenue amendments Act No.45 of 2022 to calculate the income tax liability and deferred tax assets/liabilities as at 31st December 2023.

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

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

## 16 EARNINGS PER SHARE

### 16.1 Basic Earnings per Share

Basic Earnings per Share has been calculated by dividing Profit after Tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31 December 2023 and 2022.

| For the Year ended 31st December | 2023 | 2022 |
|---|---|---|
| Profit for the year attributable to ordinary equity holders of the Bank (Rs.) | **863,517,816** | 1,349,394,652 |
| Weighted average number of ordinary shares in issue (No.) | **561,484,675** | 551,290,995 |
| **Basic earnings per ordinary share** | **1.54** | 2.45 |

### 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 2023 | 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 | - | 104,444,214 | | 104,444,214 |
| Placements with banks | 19 | - | 6,005,330,402 | - | 6,005,330,402 |
| Equity Instruments at fair value through profit or loss | 20 | 145,820 | - | - | 145,820 |
| Financial assets at amortised cost-Loans and receivables from other customers | 21 | - | 194,424,888,169 | - | 194,424,888,169 |
| Financial investments at amortised cost-Debt & other instruments | 22 | - | 86,964,714,682 | - | 86,964,714,682 |
| Equity Instruments at fair value through other comprehensive income | 23 | - | - | 2,290,929 | 2,290,929 |
| Other financial assets | 28 | - | 4,431,547,579 | - | 4,431,547,579 |
| **Total financial assets** | | **145,820** | **291,930,925,047** | **2,290,929** | **291,933,361,796** |

| As at 31 December 2023 | 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 | - | 46,208,479,283 | - | 46,208,479,283 |
| Due to other customers | 30 | - | 226,079,614,772 | - | 226,079,614,772 |
| Other liabilities | 32 | - | 5,446,759,311 | - | 5,446,759,311 |
| **Total financial liabilities** | | **-** | **277,734,853,367** | **-** | **277,734,853,367** |

| As at 31 December 2022 | 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 | - | 2,889,883,677 | - | 2,889,883,677 |
| Placements with banks | 19 | - | 6,133,705,351 | - | 6,133,705,351 |
| Financial assets held-for-trading/Equity Instruments at fair value through profit or loss | 20 | 120,280 | - | - | 120,280 |
| Financial assets at amortised cost-Loans and receivables from other customers | 21 | - | 198,008,145,156 | - | 198,008,145,156 |
| Financial assets at amortised cost-Debt & other instruments | 22 | - | 65,079,635,909 | - | 65,079,635,909 |
| Equity Instruments at fair value through other comprehensive income | 23 | - | - | 2,289,919 | 2,289,919 |
| Other financial assets | 28 | - | 6,018,325,952 | - | 6,018,325,952 |
| **Total financial assets** | | **120,280** | **278,129,696,045** | **2,289,919** | **278,132,106,244** |

| As at 31 December 2022 | Note | Financial Liabilities measured at fair value through other profit or loss | Financial Liabilities measured at amortised cost | Financial Liabilities measured at fair value through other comprehensive income | Total |
|---|---|---|---|---|---|
| | | | | Rs. | Rs. |
| **Financial Liabilities** | | | | | |
| Due to banks | 29 | - | 47,470,707,056 | - | 47,470,707,056 |
| Due to other customers | 30 | - | 210,301,323,468 | - | 210,301,323,468 |
| Other liabilities | 32 | - | 6,426,430,198 | - | 6,426,430,198 |
| **Total financial liabilities** | | **-** | **264,198,460,722** | **-** | **264,198,460,722** |

## 18 CASH AND CASH EQUIVALENTS

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Cash in hand | **959,534,987** | 919,970,763 |
| Other bank balances | **(855,090,773)** | 1,969,912,914 |
| | **104,444,214** | 2,889,883,677 |

## 19 PLACEMENTS WITH BANKS

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Money market placements | **6,005,330,402** | 6,133,705,351 |
| **Total placements with banks** | **6,005,330,402** | 6,133,705,351 |

## 20 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **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** | **2,820** | 600 | 5,160 | 2,280 |
| Seylan Development PLC | **10,000** | **140,000** | **143,000** | 10,000 | 140,000 | 118,000 |
| | **10,600** | **145,160** | **145,820** | 10,600 | 145,160 | 120,280 |

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

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Gross loans and receivables **(Note 21.1)** | **213,962,635,079** | 215,372,501,881 |
| (Less): Staff loan fair value adjustment | **(1,625,890,408)** | (1,576,948,950) |
| | **212,336,744,671** | 213,795,552,931 |
| Less: Expected Credit Loss Allowance - Individual Impairment **(Note 21.2.1)** | **(1,485,177,219)** | (1,362,761,334) |
| Less: Expected Credit Loss Allowance - Collective Impairment **(Note 21.2.2)** | **(16,426,679,282)** | (14,424,646,441) |
| **Net loans and receivables from other customers** | **194,424,888,169** | 198,008,145,156 |

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

| | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| **21.1.1 By product** | | |
| Pawning | **45,600,279,410** | 42,234,452,674 |
| Staff loans | **5,864,336,559** | 5,501,098,905 |
| Leasing | **896,814,460** | 1,397,522,296 |
| Short-term | **17,706,900,606** | 13,716,623,362 |
| Long-term | **143,894,304,044** | 152,522,804,644 |
| **Gross total** | **213,962,635,079** | 215,372,501,881 |
| | | |
| **21.1.2 By currency** | | |
| Sri Lankan rupee | **213,962,635,079** | 215,372,501,881 |
| **Gross total** | **213,962,635,079** | 215,372,501,881 |
| | | |
| **21.1.3 By industry** | | |
| Agriculture and fishing | **36,009,465,386** | 77,425,986,329 |
| Manufacturing | **29,347,624,658** | 30,674,769,876 |
| Leasing | **896,814,460** | 1,382,157,636 |
| Transport | **55,047,698** | 76,097,009 |
| Construction /housing | **15,448,706,881** | 19,645,882,183 |
| Traders | **30,321,114,853** | 30,799,835,516 |
| Others (consumptions/against deposit/staff/tourism) | **101,883,861,141** | 55,367,773,330 |
| **Gross total** | **213,962,635,079** | 215,372,501,881 |

| | | 2023 | 2022 |
|---|---|---|---|
| | | Rs. | Rs. |
| 21.2 | **Expected Credit Loss Allowance** | | |
| 21.2.1 | **Individual Impairment** | | |
| | Balance as at 01 January | **1,362,761,334** | 1,581,171,535 |
| | Net charge to profit or loss | **122,415,885** | (218,410,201) |
| | **Balance as at 31 December** | **1,485,177,219** | 1,362,761,334 |
| 21.2.2 | **Collective Impairment** | | |
| | Balance as at 01 January | **14,424,646,441** | 11,357,963,453 |
| | Net charge to profit or loss | **2,001,694,320** | 3,066,446,696 |
| | Other movements / Write off | **338,520** | 236,292 |
| | **Balance as at 31 December** | **16,426,679,281** | 14,424,646,441 |

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

| As at 31 December 2023 | Stage 1<br>Rs. | Stage 2<br>Rs. | Stage 3<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| Individually impaired loans | - | 1,458,354,115 | 2,153,713,083 | **3,612,067,199** |
| Loans subjected to collective impairment | | | | |
| Term Loan Other | 5,597,069,140 | 739,454,899 | 422,471,364 | **6,758,995,404** |
| Term Loan Industrial | 4,065,980,847 | 5,083,674,724 | 4,443,670,695 | **13,593,326,266** |
| Term Loan Commercial | 8,715,895,035 | 9,192,642,333 | 5,378,584,661 | **23,287,122,029** |
| Term Loan Agriculture | 7,730,302,712 | 6,391,049,132 | 3,883,907,231 | **18,005,259,075** |
| Term Loan Housing | 29,583,172,767 | 8,598,480,015 | 5,995,818,727 | **44,177,471,509** |
| Refinance | 17,756,076,907 | 14,839,465,051 | 5,504,071,817 | **38,099,613,775** |
| Liyaisura | 345,591 | 247,160 | 30,045,318 | **30,638,070** |
| Pawning | 41,210,085,185 | 3,537,632,063 | 852,562,162 | **45,600,279,410** |
| Leasing | 476,973,380 | 205,991,581 | 78,141,527 | **761,106,488** |
| Staff loans | 5,797,009,241 | 41,504,149 | 25,835,170 | **5,864,348,559** |
| Loans Against Deposits | 12,900,747,141 | 615,558,439 | 537,991,355 | **14,054,296,935** |
| SME | | | 118,110,361 | **118,110,361** |
| **Gross loans to & receivable from other customers** | **133,833,657,946** | **50,704,053,662** | **29,424,923,471** | **213,962,635,079** |
| Impairment for expected credit losses | (2,664,594,416) | (4,643,800,205) | (10,603,461,880) | **(17,911,856,501)** |
| **Net loans to & receivable from other customers *** | **131,169,063,530** | **46,060,253,457** | **18,821,461,591** | **196,050,778,578** |

| As at 31 December 2022 | Stage 1<br>Rs. | Stage 2<br>Rs. | Stage 3<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| Individually impaired loans | - | - | 3,914,938,412 | **3,914,938,412** |
| Loans subjected to collective impairment | | | | |
| Term Loan Other | 6,235,310,221 | 470,348,720 | 329,766,321 | **7,035,425,261** |
| Term Loan Industrial | 7,197,631,331 | 5,043,062,302 | 2,842,564,144 | **15,083,257,777** |
| Term Loan Commercial | 12,777,291,982 | 8,277,103,276 | 3,588,432,875 | **24,642,828,133** |
| Term Loan Agriculture | 11,735,212,472 | 5,357,081,276 | 2,493,687,055 | **19,585,980,803** |
| Term Loan Housing | 39,340,010,010 | 6,685,513,025 | 3,772,200,402 | **49,797,723,437** |
| Refinance | 19,581,638,683 | 13,281,543,155 | 3,031,476,105 | **35,894,657,943** |
| Liyaisura | 37,142 | - | 33,929,845 | **33,966,988** |
| Pawning | 39,780,415,414 | 2,361,740,747 | 92,296,513 | **42,234,452,674** |
| Leasing | 836,543,168 | 250,204,784 | 106,561,580 | **1,193,309,532** |
| Staff loans | 5,474,357,955 | 5,121,216 | 21,631,734 | **5,501,110,905** |
| Loans Against Deposits | 9,650,382,255 | 375,941,462 | 307,212,888 | **10,333,536,605** |
| SME | | | 121,313,411 | **121,313,411** |
| **Gross loans to & receivable from other customers** | **152,608,830,634** | **42,107,659,962** | **20,656,011,285** | **215,372,501,881** |
| Impairment for expected credit losses | (4,125,594,789) | (5,063,057,294) | (6,598,755,693) | **(15,787,407,777)** |
| **Net loans to & receivable from other customers *** | **148,483,235,844** | **37,044,602,668** | **14,057,255,591** | **199,585,094,104** |

* before zero rated loan and staff loan adjustments

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

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Quoted debentures **(Note 22.1)** | **623,946,610** | 623,946,610 |
| Government debt securities-Treasury Bills | **55,123,218,622** | 6,151,823,192 |
| Government debt securities-Treasury Bonds | **5,355,440,338** | 5,336,026,214 |
| Investment in Fixed Deposits **(Note 22.2)** | **25,864,468,910** | 52,970,666,614 |
| **Total financial assets at amortised cost** | **86,967,074,481** | 65,082,462,630 |
| Less: Expected Credit Loss Allowance **(Note 22.3)** | **(2,359,798)** | (2,826,721) |
| **Net financial assets at amortised cost** | **86,964,714,682** | 65,079,635,909 |

### 22.1 Quoted Debentures

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **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 | - | - | - | - | - | - |
| 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** | 1,077,200 | 107,720,000 | 115,316,473 |
| **Total** | **6,077,200** | **607,720,000** | **623,946,610** | 6,077,200 | 607,720,000 | 623,946,610 |

| **As at 31 December** | **2023 Rs.** | 2022 Rs. |
|---|---|---|
| **22.2 Investment in Fixed Deposits** | | |
| Fixed deposits less than three months | **1,203,602,353** | 21,726,025,221 |
| Fixed deposits more than three months | **24,660,866,557** | 31,244,641,393 |
| **Total** | **25,864,468,910** | 52,970,666,614 |

### 22.2.1 Analysis of Financial Assets at Amortised Cost - Debt and Other Instruments

#### 22.2.1.1 By Currency

| | | |
|---|---|---|
| Sri Lankan Rupee | **2,120,013,928** | 28,069,212,094 |
| United States Dollar | **23,744,454,982** | 24,901,454,519 |
| **Total Financial assets measured at amortised cost** | **25,864,468,910** | 52,970,666,614 |

#### 22.2.1.2 By Collateralisation

| | | |
|---|---|---|
| Pledged as collateral | **9,161,484,023** | 10,051,950,266 |
| Unencumbered | **16,702,984,887** | 42,918,716,348 |
| **Total Financial assets measured at amortised cost** | **25,864,468,910** | 52,970,666,614 |

#### 22.2.1.3 Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments

| | | |
|---|---|---|
| Balance as at 1 January | **12,126,553,139** | 5,435,733,610 |
| Net Acquisitions and Maturities during the Year | **48,976,052,432** | 6,693,646,250 |
| Less: Expected Credit Loss Allowance **(Note 22.3)** | **(2,359,798)** | (2,826,721) |
| **Balance as at 31 December** | **61,100,245,774** | 12,126,553,139 |

### 22.3 Expected Credit Loss Allowance

| | | |
|---|---|---|
| Balance as at 1st January | **2,826,721** | 1,760,892 |
| Net Charge (Reversal) for the year | **(466,924)** | 1,065,829 |
| **Balance as at 31 December** | **2,359,798** | 2,826,721 |

## 23 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| **As at 31st December** | **2023 Rs.** | 2022 Rs. |
|---|---|---|
| Unquoted Equity Securities **(Note 23.1)** | **2,290,929** | 2,289,919 |
| | **2,290,929** | 2,289,919 |

### 23.1 Unquoted Equity Securities

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| **As at 31st December** | **No. of Shares/ Percentage** | **Cost of Investment Rs.** | **Market Value Rs.** | No. of Shares | Cost of Investment Rs. | Market Value Rs. |
| CRIB | **1,821** | **2,289,919** | **2,289,919** | 1,821 | 2,289,919 | 2,289,919 |
| NCGI | **100** | **1,010** | **1,010** | - | - | - |
| **Total** | **1,921** | **2,290,929** | **2,290,929** | 1,821 | 2,289,919 | 2,289,919 |

## 24 PROPERTY, PLANT AND EQUIPMENT

**2023**

| | Land and Buildings | Leasehold properties | Computer, Hardware | Office, Equipment, Furniture and Fittings | Motor Vehicles | Partition & Fittings | Work-in Progress | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *Rs.* | | *Rs.* | *Rs.* | *Rs.* | *Rs.* | | | *Rs.* |
| **Cost** | | | | | | | | | |
| Opening balance as at 01 January 2023 | 707,918,496 | | 807,585,212 | 1,414,304,409 | 387,254,915 | 497,042,625 | 6,924,347 | 657,900 | 3,821,687,905 |
| Additions | 18,167,140 | | 283,576,100 | 62,929,806 | - | 37,005,500 | 61,233,754 | | 462,912,300 |
| Disposals | - | | (7,612,533) | (15,718,396) | (476,000) | (1,347,640) | | | (25,154,569) |
| Write off | - | | - | - | - | - | - | | - |
| Transfers during the Year | - | | (121,420) | 121,420 | - | - | - | - | (0) |
| Reclassification Adjustments | | | (6,965,279) | 9,065,850 | 253,920 | (1,493,099) | (820,184) | | 41,208 |
| **Closing balance as at 31 December 2023** | 726,085,636 | - | 1,076,462,080 | 1,470,703,090 | 387,032,835 | 531,207,385 | 67,337,917 | 657,900 | 4,259,486,845 |
| | | | | | | | | | |
| **(Less): Accumulated depreciation** | | | | | | | | | |
| Opening balance as at 01 January 2023 | 230,259,640 | | 663,327,610 | 1,231,216,723 | 389,163,206 | 377,720,727 | - | | 2,891,687,906 |
| Charge for the year | 25,018,326 | | 86,529,572 | 74,456,627 | (2,376,813) | 43,870,735 | - | | 227,498,447 |
| Disposals | - | | (5,844,818) | (15,057,123) | (475,995) | (941,105) | - | | (22,319,041) |
| Written off | - | | - | - | - | - | - | | - |
| Transfers during the Year | - | | - | 0 | - | - | | | 0 |
| Reclassification Adjustments | - | | (290,082) | 323,114 | 634,425 | 123,715 | - | | 791,172 |
| **Closing balance as at 31 December 2023** | 255,277,965 | - | 743,722,281 | 1,290,939,342 | 386,944,823 | 420,774,072 | - | - | 3,097,658,483 |
| | | | | | | | | | |
| **Net book value as at 31 December 2023** | 470,807,671 | - | 332,739,799 | 179,763,749 | 88,012 | 110,433,313 | 67,337,917 | 657,900 | 1,161,828,361 |

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

**2022**

| | Land and Buildings | Leasehold properties | Computer Hardware | Office, Equipment, Furniture and Fittings | Motor Vehicles | Working Progress | Partition & Fittings | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| **Cost** | | | | | | | | | |
| Opening balance as at 01 January 2022 | 702,910,953 | | 765,947,389 | 1,356,459,136 | 387,762,031 | 423,704,723 | 6,299,469 | 747,424 | 3,643,831,125 |
| Additions | 8,810,285 | | 59,069,158 | 64,544,426 | - | 74,827,163 | 624,879 | | 207,875,911 |
| Disposals | (3,802,742) | | (17,433,335) | (6,698,473) | (635,196) | (1,143,261) | | | (29,713,007) |
| Written off | - | | - | - | - | - | - | | - |
| Transfers during the Year | - | | - | 89,524 | - | - | - | (89,524) | - |
| Reclassification Adjustments | | | 2,000 | (90,204) | 128,080 | (346,000) | - | | (306,124) |
| **Closing balance as at 31 December 2022** | **707,918,496** | **-** | **807,585,212** | **1,414,304,409** | **387,254,915** | **497,042,625** | **6,924,347** | **657,900** | **3,821,687,905** |
| | | | | | | | | | |
| **(Less): Accumulated depreciation** | | | | | | | | | |
| Opening balance as at 01 January 2022 | 209,726,962 | | 622,424,460 | 1,160,933,630 | 386,599,729 | 335,581,260 | - | | 2,715,266,041 |
| Charge for the year | 22,625,057 | | 56,087,298 | 84,791,446 | 3,445,868 | 43,806,062 | - | | 210,755,730 |
| Disposals | (2,083,558) | | (17,433,173) | (6,697,976) | (629,591) | (1,453,990) | - | | (28,298,288) |
| Written off | - | | - | - | - | - | - | | - |
| Transfers during the Year | - | | - | - | - | - | | | - |
| Reclassification Adjustments | (8,821) | | (664,531) | (1,771,677) | (252,800) | 44,999 | - | | (2,652,830) |
| **Closing balance as at 31 December 2022** | **230,259,640** | **-** | **660,414,054** | **1,237,255,423** | **389,163,206** | **377,978,331** | **-** | | **2,895,070,653** |
| | | | | | | | | | |
| **Net book value as at 31 December 2022** | **477,658,856** | **-** | **147,171,159** | **177,048,987** | **(1,908,291)** | **119,064,294** | **6,924,347** | **657,900** | **926,617,253** |

### 24.1 Fully Depreciated Property, Plant and Equipment

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

| As at 31 December | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| **Asset Class** | | |
| Building | **8,100,812** | 3,562,414 |
| Computer, Hardware | **535,902,044** | 394,666,351 |
| Office,Equipment,Furniture and Fittings | **943,567,960** | 619,998,427 |
| Motor Vehicles | **365,599,547** | 366,272,260 |
| Partition & Fittings | **281,402,581** | 174,463,538 |
| Software | **241,895,254** | 112,232,689 |
| | **2,376,468,198** | 1,671,195,678 |

### 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 2023 are as follows:

| Name of Premises and address | Extent (Perches) | Building (Square feet) | Date of valuation | Cost of Land | Cost of Building | Total Value | Accumulated Depreciation | Written down value |
|---|---|---|---|---|---|---|---|---|
| | | | | Rs | Rs | Rs | Rs | Rs |
| **H/O - No 933, Kandy Rd, Wedamulla, Kelaniya** | 50.4 | 5,375 | March 5, 2012 | 143,064,464 | 139,371,952 | 282,436,416 | 70,750,632 | 211,685,784 |
| **Central Province** | | | | | | - | | - |
| Matale -No 62, Main Street, Matale | 4.8 | 2,280 | December 26, 2014 | - | 11,915,631 | 11,915,631 | 5,370,195 | 6,545,436 |
| Dambulla - No734, Anuradhapura Road, Dambulla | 8.2 | 2,210 | December 18, 2003 | 565,000 | 2,286,908 | 2,851,908 | 2,286,907 | 565,001 |
| Wilgamuwa -Hettipola, Wilgamuwa | 38.0 | 1,740 | August 24, 2009 | - | 7,581,277 | 7,581,277 | 6,039,268 | 1,542,009 |
| Agarapathana - No158, Hoolbrook, Agarapatana | 10.8 | 1,598 | August 17, 2012 | | 1,260,000 | 1,260,000 | 719,999 | 540,001 |
| Naula- 26,Dambulla Road,Naula | 20.0 | 1,640 | February 25, 1998 | 2,471,252 | 8,600,539 | 11,071,791 | 4,301,189 | 6,770,602 |
| Laggala-New Town -Laggala | 40.0 | 3,261 | | - | 23,565,250 | 23,565,250 | 5,407,095 | 18,158,155 |
| **North Central Province** | | | | | | - | | - |
| Mihinthale - Trincomalee Road, Mihinthale | 20.0 | 6,359 | December 30, 2005 | 0 | 8,859,427 | 8,859,427 | 7,965,314.00 | 894,113 |
| Medawachchiya - Mannar Road, Madawachchiya | 34.0 | 4,371 | March 19, 2013 | - | 16,192,223 | 16,192,223 | 8,905,722.65 | 7,286,500 |
| Galenbindunuwewa - Pola Road, Galenbidunuwewa | 70.0 | 1,687 | March 14, 2013 | - | 5,820,073 | 5,820,073 | 3,025,164.55 | 2,794,908 |
| Medirigiriya - Main Street, Madirigiriya | 40.0 | - | December 31, 2007 | - | 9,643,650 | 9,643,650 | 7,723,563.60 | 1,920,087 |
| Siripura - New Town, Siripura | 30.0 | 4,973 | February 24, 2016 | - | 22,291,625 | 22,291,625 | 8,752,203.74 | 13,539,422 |
| Thirappane - Kandy Road, Thirappane | 65.4 | 8,030 | December 8, 2016 | 379,869.25 | 46,150,602 | 46,530,472 | 12,272,800.09 | 34,257,671 |
| No.343,Mosque Road,Stage 01,Anuradhapura | | | | | 125,000 | 125,000 | 31,250.00 | 93,750 |
| **North Western Province** | | | | | | - | - | - |
| Mawathagama - Kandy Road, Mawathagama | 21.5 | - | March 3, 2016 | 10,801,311 | | 10,801,311 | - | 10,801,311 |
| P/O Kurunegala - No 155, Negombo Rd, Kurunegala | 14.0 | 8,484 | December 29, 2004 | - | 18,227,912 | 18,227,912 | 11,536,423.06 | 6,691,489 |
| Polpithigama - Kurunegala Road,Polpitigama | 20.0 | 2,784 | December 30, 2014 | - | 16,782,785 | 16,782,785 | 7,364,469.28 | 9,418,316 |
| Mampuri - Kalpitiya Road, Mampuri | 80.0 | 15,181 | December 30, 2014 | - | 25,188,128 | 25,188,128 | 11,155,754.37 | 14,032,374 |
| Palakuda - Kalpiti Road, Thalawila | 20.3 | 2,244 | March 25, 2003 | - | 5,792,157 | 5,792,157 | 4,061,528.73 | 1,730,629 |
| Nattandiya - Marawila Road, Naththandiya | 15.7 | 1,200 | February 11, 2003 | - | 36,799,082 | 36,799,082 | 9,351,389.12 | 27,447,693 |
| Wariyapola-No 29/4,Adhikari Mawatha,Wariyapola. | 10.0 | 6,208 | November 12, 2013 | - | 35,609,963 | 35,609,963 | 13,488,316.20 | 22,121,647 |
| 29/4 Adikari Mawatha, Wariyapola - District office | 17.3 | - | July 2, 2023 | 9,586,744 | - | 9,586,744 | - | 9,586,744 |
| Puttalm 618/Puttlam South - Lease hold Building | 51.0 | | | 7,321,062 | - | 7,321,062 | 317,663.87 | 7,003,398 |
| **Southern Province** | | | | | | - | - | - |
| Kekanadura - Weherahena Rd, Kekanadura | 12.0 | 1,704 | May 10, 2004 | 1,418,000 | 1,194,535 | 2,612,535 | 1,074,809 | 1,537,726 |
| Akmeemana - Ganegoda, Akmeemana | 6.5 | 1,614 | October 2, 1993 | - | 1,039,150 | 1,039,150 | 602,285 | 436,865 |
| Galle Branch - No 301, Matara rd, Magalle, Galle | 30.0 | 1,224 | October 9, 1999 | - | 8,894,553 | 8,894,553 | 4,235,119 | 4,659,434 |
| Katuwana - Uda Gomadiya Road, Katuwana | 39.1 | 3,150 | March 22, 2001 | 1,320,000 | 7,406,958 | 8,726,958 | 6,664,571 | 2,062,387 |
| Tangalle - 81, Beliatta Road, Tangalle | 16.0 | 1,200 | May 5, 2005 | 1,620,667 | 1,675,534 | 3,296,201 | 1,675,533 | 1,620,668 |
| Uragasmanhandiya - Kosgoda Road,Uragasmanhandiya | 20.0 | 1,940 | April 10, 2012 | - | 13,354,618 | 13,354,618 | 7,162,100 | 6,192,518 |
| Ambalantota - 139,Hambantota Road,Ambalantota | 25.0 | 2,568 | August 30, 2004 | 2,000,000 | 3,070,100 | 5,070,100 | 2,762,389 | 2,307,711 |
| Agunakolapelessa,Ranna Road,Agunakolapelessa | 12.0 | 2,371 | August 27, 2001 | - | 3,470,348 | 3,470,348 | 2,582,774 | 887,574 |
| D/O Galle - No 301, Matara rd, Magalle, Galle | 30.0 | 2,000 | October 8, 1999 | 1,750,000 | 4,884,716 | 6,634,716 | 4,117,844 | 2,516,872 |
| No.01,Galwala Road,Hambantota | 237.0 | 16,315 | | | 33,088,400 | 33,088,400 | 18,087,763 | 15,000,636 |
| Thalgaswala | | | May 26, 2022 | 3,004,320 | | 3,004,320 | - | 3,004,320 |
| **Uva Province** | | | | | | - | - | - |
| Girandurukotte - Development Centre,Girandurukotte | 10.1 | 1,661 | November 30, 2011 | | 3,227,674.2 | 3,227,674 | 2,008,302 | 1,219,372 |
| Monaragal D/O-Monaragala Road,Buttala. | 34.0 | 1,706 | October 22, 1999 | 3,162,263 | | 3,162,263 | 2,921,157 | 241,106 |
| Bandarawela Lease hold Premises | 7.7 | | February 18, 2013 | 1,150,000 | - | 1,150,000 | - | 1,150,000 |
| **Sabaragamuwa Province** | | | | | | - | | - |
| Balangoda - No17,Rest House Approach Road,Balangoda | 20.0 | - | February 18, 2013 | 6,679,574 | | 6,679,574 | - | 6,679,574 |
| **Eastern Province** | | | | | | - | | - |
| Swiss Village, Batticaloa, | | | | 173,370 | | 173,370 | | 173,370 |
| Clock tower junction, front of bus stand, Ampara | | | | 468,550 | | 468,550 | | 468,550 |
| Eastern Province - Dehiattakandiya | | | | | 5,778,419 | 5,778,419 | 556,470 | 5,221,949 |
| **Total** | | | | **196,936,446** | **529,149,190** | **726,085,636** | **255,277,966** | **470,807,671** |

## 25 INTANGIBLE ASSETS

| As at 31st December | 2023 Rs. | 2022 Rs. |
|---|---|---|
| **Computer Software** | | |
| **Cost** | | |
| Balance as at 1st January | **368,796,128** | 366,809,102 |
| Additions | **106,975,432** | 1,987,025 |
| Written off | | |
| Reclassification Adjustments | **(662,792)** | |
| Disposals | **-** | - |
| Balance as at 31st December | **475,108,768** | 368,796,128 |
| **Accumulated Amortization** | | |
| Balance as at 1st January | **299,928,384** | 253,120,322 |
| Charge for the year | **62,778,029** | 46,808,061 |
| Disposals | **-** | - |
| Balance as at 31st December | **362,706,413** | 299,928,384 |
| **Net book value** | **112,402,355** | 68,867,744 |

**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

| | 2023 | | |
|---|---|---|---|
| | **Building Rs.** | **Motor Vehicles Rs.** | **Total Rs.** |
| **Cost** | | | |
| Balance as at 1 January 2023 | **1,748,920,951** | **70,539,460** | **1,819,460,411** |
| Opening balance modifications - Buildings | **53,856,651** | **-** | **53,856,651** |
| Additions and Improvements | **402,891,729** | **-** | **402,891,729** |
| **Balance as at 31 December 2023** | **2,205,669,332** | **70,539,460** | **2,276,208,792** |
| **Accumulated Amortization** | | | |
| Balance as at 1 January 2023 | **1,044,175,417** | **57,188,296** | **1,101,363,713** |
| Charge for the Period | **301,249,854** | **13,351,164** | **314,601,018** |
| **Balance as at 31 December 2023** | **1,345,425,271** | **70,539,459** | **1,415,964,731** |
| **Net book Value as at 31 December 2023** | **860,244,061** | **0** | **860,244,061** |

| | 2022 | | |
|---|---|---|---|
| | **Building Rs.** | **Motor Vehicles Rs.** | **Total Rs.** |
| **Cost** | | | |
| Balance as at 1 January 2022 | 1,426,641,309 | 51,945,919 | 1,478,587,228 |
| Additions and Improvements | 322,279,642 | 18,593,541 | 340,873,183 |
| **Balance as at 31 December 2022** | **1,748,920,951** | **70,539,460** | **1,819,460,411** |
| **Accumulated Amortization** | | | |
| Balance as at 1 January 2022 | 773,511,982 | 50,794,992 | 824,306,973 |
| Charge for the Period | 270,663,435 | 6,393,304 | 277,056,739 |
| **Balance as at 31 December 2022** | **1,044,175,417** | **57,188,296** | **1,101,363,713** |
| **Net book Value as at 31 December 2022** | **704,745,534** | **13,351,164** | **718,096,698** |

### 26.2 Lease Liabilities

| | 2023 | | |
|---|---|---|---|
| | **Building Rs.** | **Motor Vehicles Rs.** | **Total Rs.** |
| Balance as at 1 January 2023 | **799,247,478** | **13,408,327** | **812,655,805** |
| Opening balance modifications - Buildings | **55,328,487** | **-** | **55,328,487** |
| Additions | **392,146,729** | **-** | **392,146,729** |
| Accretion of Interest | **39,812,098** | **257,672** | **40,069,770** |
| Payments | **(348,066,641)** | **(13,666,000)** | **(361,732,641)** |
| **Balance as at 31 December 2023** | **938,468,152** | **(1)** | **938,468,151** |

| | 2022 | | |
|---|---|---|---|
| | **Building Rs.** | **Motor Vehicles Rs.** | **Total Rs.** |
| Balance as at 1 January 2022 | 762,815,214 | 1,356,855 | 764,172,070 |
| Opening balance modifications - Buildings | | - | - |
| Additions | 307,094,220 | **18,593,541** | 325,687,761 |
| Accretion of Interest | 49,793,001 | 198,181 | 49,991,183 |
| Payments | (320,454,959) | (6,740,250) | (327,195,209) |
| **Balance as at 31 December 2022** | **799,247,477** | **13,408,328** | **812,655,804** |

#### 26.2.1 Maturity Analysis of Lease Liability - Contractual Undiscounted Cashflows

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Less than one year | **51,397,916** | 48,815,297 |
| One to five years | **887,070,235** | 763,840,507 |
| | **938,468,151** | 812,655,804 |

### 26.3 Amounts Recognised in Profit or Loss

| | 2023 | 2022 |
|---|---|---|
| Interest on lease liability | **40,069,770** | 49,991,183 |
| Amortisation charge for the year | **314,601,018** | 277,056,739 |
| | **354,670,788** | 327,047,922 |

### 26.4 Amounts Recognised in Statement of Cash Flows

| | 2023 | 2022 |
|---|---|---|
| Lease rental payments | **361,732,641** | 327,195,209 |
| | **361,732,641** | 327,195,209 |

## 27 DEFERRED TAX ASSETS/ LIABILITIES

| As at 31st December | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Deferred tax asset | **(3,082,238,219)** | (3,664,188,331) |
| Deferred tax liability | **122,221,176** | 139,013,413 |
| Net deferred tax (asset)/ liability | **(2,960,017,043)** | (3,525,174,917) |

### 27.1 Amounts recognized in the Income Statement

| | 2023 | 2022 |
|---|---|---|
| Recognized in profit or loss | **361,125,098** | (2,308,254,679) |
| Recognized in other comprehensive income | **204,032,777** | 46,874,831 |

### 27.2 Movement in deferred tax balances

| **2023** | **Net Balance as at 01st January 2023** | **Recognized in profit or loss** | **Recognized in OCI** | **Net Balance at 31st December 2023** | **Deferred Tax Asset** | **Deferred Tax Liability** |
|---|---|---|---|---|---|---|
| **Property, Plant and Equipment** | **99,661,788** | **(9,481,936)** | **-** | **90,179,852** | **-** | **90,179,852** |
| **Leases** | **39,351,625** | **(7,310,301)** | **-** | **32,041,324** | **-** | **32,041,324** |
| **Allowance for loan losses** | **(2,765,081,722)** | **555,184,012** | **-** | **(2,209,897,710)** | **(2,209,897,710)** | **-** |
| **Employee Benefits** | **(927,474,341)** | **(125,431,718)** | **204,032,777** | **(848,873,281)** | **(848,873,281)** | **-** |
| **Operating Lease** | **28,367,732** | **(51,834,959)** | **-** | **(23,467,227)** | **(23,467,227)** | **-** |
| | **(3,525,174,918)** | **361,125,098** | **204,032,777** | **(2,960,017,043)** | **(3,082,238,219)** | **122,221,176** |

| 2022 | Net Balance as at 01st January 2022 | Recognized in profit or loss | Recognized in OCI | Net Balance at 31st December 2022 | Deferred Tax Asset | Deferred Tax Liability |
|---|---|---|---|---|---|---|
| Property, Plant and Equipment | 91,465,510 | 8,196,278 | - | 99,661,788 | - | 99,661,788 |
| Leases | 109,582,764 | (70,231,139) | - | 39,351,625 | - | 39,351,625 |
| Allowance for loan losses | (697,722,669) | (2,067,359,053) | - | (2,765,081,722) | (2,765,081,722) | - |
| Employee Benefits | (731,151,537) | (243,197,635) | 46,874,831 | (927,474,341) | (927,474,341) | - |
| Operating Lease | (35,969,138) | 64,336,869 | - | 28,367,732 | (28,367,732) | - |
| | (1,263,795,069) | (2,308,254,679) | 46,874,831 | (3,525,174,918) | (3,720,923,795) | 139,013,413 |

## 28 OTHER ASSETS

| As at 31st December | 2023 Rs. | 2022 Rs. |
|---|---|---|
| **Cost** | | |
| **Financial Assets** | | |
| Receivables | **4,187,904,177** | 5,277,754,780 |
| Deposits and Advances | **17,961,962** | 18,116,724 |
| Sundry Debtors | **40,030,372** | 138,577,994 |
| Others | **185,651,069** | 583,876,453 |
| | **4,431,547,579** | 6,018,325,952 |
| **Non Financial Assets** | | |
| Prepayment | **140,330,226** | 125,158,025 |
| Others | **2,042,579,792** | 1,896,047,149 |
| Tax Receivables | **3,084,424** | 3,084,424 |
| | **2,185,994,442** | 2,024,289,598 |
| **Total other assets** | **6,617,542,021** | 8,042,615,550 |

## 29 DUE TO BANKS

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Borrowings | **26,688,177,339** | 31,220,478,612 |
| Leasing **(Note 29.1)** | **96,000** | 96,000 |
| Refinance | **19,520,205,944** | 16,250,132,445 |
| **Total due to banks** | **46,208,479,283** | 47,470,707,056 |

**Maturity of the leasing**

| As at 31st December | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Not later than 1 year | **96,000** | 96,000 |
| | **96,000** | 96,000 |
| Less - Interest in suspense | - | - |
| **Total** | **96,000** | 96,000 |

## 30 FINANCIAL LIABILITIES AT AMORTISED COST - DUE TO OTHER CUSTOMERS

| | 2023 Rs. | 2022 Rs. |
|---|---|---|
| Due to other customers | **226,079,614,772** | 210,301,323,468 |
| **Total financial liabilities at amortised cost - due to other customers** | **226,079,614,772** | 210,301,323,468 |

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

| | | 2023 Rs. | 2022 Rs. |
|---|---|---|---|
| 30.1.1 | **By product** | | |
| | Savings deposits | **44,208,976,801** | 40,472,860,914 |
| | Long term savings | **25,856,165,440** | 25,379,586,421 |
| | Fixed deposits | **156,014,472,532** | 144,448,876,133 |
| | **Total financial liabilities at amortised cost** | **226,079,614,772** | 210,301,323,468 |
| 30.1.2 | **By currency** | | |
| | Sri Lankan rupee | **226,079,614,772** | 210,301,323,468 |
| | **Total financial liabilities at amortised cost** | **226,079,614,772** | 210,301,323,468 |
| 30.1.3 | **By maturity** | | |
| | Due within one year | **192,704,887,810** | 153,700,366,310 |
| | Due after one year | **33,374,726,962** | 56,600,957,158 |
| | **Total financial liabilities at amortised cost** | **226,079,614,772** | 210,301,323,468 |

| | | 2023 | 2022 |
|---|---|---|---|
| | | **Rs.** | Rs. |
| **31** | **CURRENT TAX LIABILITIES** | | |
| | Balance as at 1st January | **1,011,924,146** | 503,021,886 |
| | Current tax based on profit for the year **(Note 15)** | **129,272,120** | 1,301,405,280 |
| | Under/(Over) provision in respect of previous years **(Note 15)** | **(170,493,912)** | 16,570,076 |
| | Surcharge tax | **-** | 800,598,848 |
| | Payment of tax | **(1,474,291,933)** | (1,609,671,944) |
| | **Balance as at 31 December** | **(503,589,580)** | 1,011,924,146 |

| | | 2023 | 2022 |
|---|---|---|---|
| **32** | **OTHER LIABILITIES** | **Rs.** | Rs. |
| | **Financial Liabilities** | | |
| | Sundry creditors | **387,530,967** | 1,948,511,439 |
| | Other payables | **4,119,557,073** | 3,867,818,680 |
| | Inter bank transaction in transit | **1,203,121** | 1,662,616 |
| | Operating Lease Liability **(Note 26.2)** | **938,468,151** | 812,655,804 |
| | | **5,446,759,311** | 6,630,648,539 |
| | **Non Financial Liabilities** | | |
| | Other payables | **1,241,194,421** | 860,174,209 |
| | Impairment provision for expected credit losses - credit related commitment and contingencies | **46,090,572** | 6,882,856 |
| | | **1,287,284,993** | 867,057,065 |
| | **Total** | **6,734,044,304** | 7,497,705,604 |

## 33 RETIREMENT BENEFIT OBLIGATION

| As at 31 December | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Retirement Benefit Obligation **(Note 33.1)** | **2,829,577,605** | 3,091,581,136 |
| | **2,829,577,605** | 3,091,581,136 |

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

| As at 31 December | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Opening balance as at 01 January | **3,091,581,136** | 3,046,464,739 |
| Provision made during the year **(Note 33.2)** | **708,495,411** | 567,113,577 |
| Payable for resigned employees | **(14,201,210)** | (299,493,340) |
| Net Actuarial (Gain)/Loss on obligation **(Note 33.3)** | **(680,109,258)** | (156,249,438) |
| | **3,105,766,079** | 3,157,835,538 |
| Benefits paid by the Bank | **(276,188,475)** | (66,254,402) |
| **Balance as at 31 December** | **2,829,577,604** | 3,091,581,136 |

### 33.2 Amount Recognised in Statement of Profit or Loss

| As at 31st December | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Current Service cost | **152,010,807** | 216,770,132 |
| Interest Cost | **556,484,604** | 350,343,445 |
| **Total amount recognised in Statement of Profit or Loss** | **708,495,411** | 567,113,577 |

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

| As at 31 December | 2023<br>Rs. | 2022<br>Rs. |
|---|---|---|
| Net Actuarial (Gain)/Loss on obligation | **(680,109,258)** | (156,249,438) |
| **Total amount recognised in Other Comprehensive Income** | **(680,109,258)** | (156,249,438) |

**33.4** An actuarial valuation of the gratuity fund was carried out as at 31st December 2023 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 | 2023 | 2022 |
|---|---|---|
| Discount rate as at 31st December | **12.80%** | 18.00% |
| Future salary increment rate | **8% P.A.** | 15% P.A. |
| Mortality | **A1967/70 Mortality Table issued by the Institute of Actuaries** | A1967/70 Mortality Table issued by the Institute of Actuaries |
| Retirement age | **60 Years** | 60 Years |

### 33.5 Sensitivity of Assumptions Used in the Actuarial Valuation

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

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

| **Increase/ (Decrease) in Discount Rate** | **Increase/ (Decrease) in Salary Increment Rate** | **2023** | | 2022 | |
|---|---|---|---|---|---|
| | | **Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year** | **Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability** | Sensitivity Effect on Income Statement Increase /(Reduction) in results for the year | Present value of Defined Benefit Obligation Increase /(Decrease) in the Liability |
| | | **Rs.** | **Rs.** | Rs. | Rs. |
| **+1%** | **-** | **156,926,268** | **(156,926,268)** | 187,672,691 | (187,672,691) |
| **-1%** | **-** | **(177,150,113)** | **177,150,113** | (212,584,985) | 212,584,985 |
| **-** | **+1%** | **(196,503,326)** | **196,503,326** | (218,242,691) | 218,242,691 |
| **-** | **-1%** | **176,268,820** | **(176,268,820)** | 195,388,622 | (195,388,622) |

## 34 STATED CAPITAL

| | **2023** | 2022 |
|---|---|---|
| | **Rs.** | Rs. |
| **Ordinary shares** | | |
| Balance as at 1st January | **8,221,864,565** | 8,047,229,930 |
| Issue of shares | **300,000,002** | 174,634,635 |
| Balance as at 31st December | **8,521,864,568** | 8,221,864,565 |

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.

## 35 STATUTORY RESERVE FUND

| | **2023** | 2022 |
|---|---|---|
| | **Rs.** | Rs. |
| Balance as at 1st January | **845,247,866** | 777,778,133 |
| Transfer during the period | **43,175,891** | 67,469,733 |
| Balance as at 31st December | **888,423,757** | 845,247,866 |

## 36 OTHER RESERVES

| Balance as at 31 December 2023 | **Opening balance as at 01 January 2023** | **Movement/ transfers** | **Closing balance as at 31 December 2023** |
|---|---|---|---|
| | **Rs.** | **Rs.** | **Rs.** |
| General reserve Fund | 3,569,591,213 | 172,703,563 | 3,742,294,776 |
| Special Reserve Fund | 699,638,195 | 43,175,891 | 742,814,085 |
| **Total** | 4,269,229,407 | 215,879,454 | 4,485,108,860 |

| Balance as at 31 December 2022 | Opening balance as at 01 January 2022 | Movement/ transfers | Closing balance as at 31 December 2022 |
|---|---|---|---|
| | Rs. | Rs. | Rs. |
| General reserve Fund | 3,299,712,282 | 269,878,930 | 3,569,591,212 |
| Special Reserve Fund | 632,168,462 | 67,469,733 | 699,638,194 |
| **Total** | 3,931,880,744 | 337,348,663 | 4,269,229,406 |

## 37 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.

### 37.1 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.

### 37.1.1 Key Management Personnel Compensation

Key management personnel compensation comprised the following;

| | **2023 Rs.** | 2022 Rs. |
|---|---|---|
| Short term employment benefits | **114,446,682** | 160,829,395 |
| Post employment benefits | **-** | - |
| | **114,446,682** | 160,829,395 |

### 37.1.2 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;

| **Items in the Statement of Financial Position** | **2023 Rs.** | 2022 Rs. |
|---|---|---|
| **Assets** | | |
| Loans and receivables | **63,520,164** | 65,671,853 |
| | **63,520,164** | 65,671,853 |
| **Liabilities** | | |
| Deposits | **109,537,568** | 139,035,622 |
| | **109,537,568** | 139,035,622 |
| | | |
| **Items in the Statement of Profit or Loss** | | |
| Interest income | **1,263,637** | 506,851 |
| Interest expenses | **8,446,504** | 8,423,376 |
| | **9,710,141** | 8,930,227 |

#### 37.1.2.1 Terms and conditions of the accommodation granted to KMPs and their CFMs

| **Type of the Loan** | **Other Terms and Conditions** | **Balance as at 31.12.2023** | **Security Details 31.12.2023 Type** | **Value** |
|---|---|---|---|---|
| Staff Housing Loans | Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of of employees. | **17,517,740** | Property | **123,600,000** |
| Staff Vehicle Loans | | **16,717,697** | Motor Vihicle | **41,050,000** |
| Cash Backed Loans | | **13,526,725** | Fixed Deposit/ Savings Deposits | **25,949,917** |
| Consumptions and Other Loans | | **15,758,002** | Personal Guarantee & Gold | **6,099,813** |
| | | **63,520,164** | | **196,699,730** |

| Type of the Loan | Other Terms and Conditions | Balance as at 31.12.2022 | Security Details 31.12.2022 | |
|---|---|---|---|---|
| | | | Type | Value |
| Staff Housing Loans | Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of of employees. | 15,149,524 | Property | 182,500,000 |
| Staff Vehicle Loans | | 16,082,731 | Motor Vihicle | 60,437,000 |
| Cash Backed Loans | | 22,474,505 | Deposit/ Savings De | 28,093,131 |
| Consumptions and Other Loans | | 11,965,093 | - | - |
| | | 65,671,853 | | 271,030,131 |

Total exposure to KMPs and their CFMs represents 0.28% of bank's regulatoty capital.

**37.2 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:

| | **2023 Rs.** | 2022 Rs. |
|---|---|---|
| **Items in the Statement of Financial Position** | | |
| **Assets** | | |
| Loans and receivables | **229,817,083** | 205,953,019 |
| | **229,817,083** | 205,953,019 |
| **Liabilities** | | |
| Deposits | **16,542,321,512** | 13,335,228,331 |
| | **16,542,321,512** | 13,335,228,331 |
| **Items in the Statement of Profit or Loss** | | |
| Interest income | - | 422,182 |
| Interest expenses | **2,749,060,923** | 1,588,821,341 |
| | **2,749,060,923** | 1,589,243,523 |

**37.2.1 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)

**37.3 Pricing Policy with Related Parties**

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

**38 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 2023 and 2022 is shown in the following table:

| **2023** | **Type of Facility** | **Amount of Facility Rs. Mn** | **Nature of Security** | **Value of Security Rs. Mn** | **Balance as at 31 December 2023 Rs. Mn** |
|---|---|---|---|---|---|
| **1** | **Over Draft - BOC** | **606** | **FD 74619066** | **413** | **-** |
| | | | **FD 80912939** | **891** | |
| **2** | **Over Draft - PB** | **200** | **FD- 055-60-01-00035863-2** | **290** | **-** |

| 2022 | Type of Facility | Amount of Facility Rs. Mn | Nature of Security | Value of Security Rs. Mn | Balance as at 31 December 2022 Rs. Mn |
|---|---|---|---|---|---|
| 1 | Over Draft - BOC | 606 | FD 80912939 | 723 | - |
| | | | FD 74619066 | 335 | |
| 2 | Over Draft - PB | 200 | FD- 055-60-01-00027365-2 | 290 | - |

## 39 CONTINGENT LIABILITIES AND COMMITMENTS

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

These contingencies and commitments are quantifies below:

| **As at 31 December** | **2023** | 2022 |
|---|---|---|
| | | Rs. |
| Guarantees and performance bonds | **366,098,463** | 180,046,018 |
| Other contingent items | **292,019,801** | 207,216,884 |
| Less : Impairment for expected credit losses-Guarantees | **(46,090,572)** | (6,882,856) |
| **Total** | **612,027,693** | 380,380,046 |

### 39.1 Analysis of Commitment and Contingency Exposure to Credit Risk

| **As at 31 December 2023** | **Stage 1** | **Total** |
|---|---|---|
| | **Rs.** | **Rs.** |
| Guarantees and performance bonds | **366,098,463** | **366,098,463** |
| Other contingent items | **292,019,801** | **292,019,801** |
| Expected Credit Loss Allowance **(Note 39.1.1)** | **(46,090,572)** | **(46,090,572)** |
| | **612,027,693** | **612,027,693** |

| **As at 31 December 2022** | Stage 1 | Total |
|---|---|---|
| | Rs. | Rs. |
| Guarantees and performance bonds | 180,046,018 | 180,046,018 |
| Other contingent items | 207,216,884 | 207,216,884 |
| Expected Credit Loss Allowance **(Note 39.1.1)** | (6,882,856) | (6,882,856) |
| | 380,380,046 | 380,380,046 |

#### 39.1.1 Expected Credit Loss Allowance

| | **2023** | 2022 |
|---|---|---|
| | **Rs.** | Rs. |
| Balance as at 1st January | **6,882,856** | 3,308,006 |
| Net Charge for the year | **39,207,716** | 3,574,850 |
| Balance as at 31st December | **46,090,572** | 6,882,856 |

### 39.2 Assessment Received by the Bank

Following assessments were received by the bank from the Department of Inland Revenue.

**Income Tax**

Notice of assessments issued for the year of assessment,2017/18 LKR.1,023 Mn (0201718001), 2018/19 LKR.246 Mn. (0201819002),2019/20 LKR.292 Mn. (0201920002) and 2020/21 LKR.16.7 Mn. (0202021002) discussions are going with the authorities on for full settlement.

**Value Added Tax**

Value Added Tax on Financial Services for the years 2016 (VATFS/BFSU/2019/1002),2017 (07501718002),2018 (075018190002),2019 (07501920002) and 2020 (7502021002) were respectively LKR.285.74 Mn.

## 40 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 31/12/2023, the Bank has 36 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.

## 41 EVENTS AFTER THE REPORTING DATE

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

## 42 CURRENT VS NON CURRENT ANALYSIS

**As at 31 December 2023**

| **Assets** | **Within 12 Months Rs.** | **After 12 Months Rs.** | **Total Rs.** |
|---|---|---|---|
| Cash and cash equivalent | 104,444,214 | - | 104,444,214 |
| Placements with banks | 6,005,330,402 | - | 6,005,330,402 |
| Equity Instruments at fair value through profit or loss | 145,820 | - | 145,820 |
| Financial assets at amortised cost-Loans and receivables from other customers | 88,522,864,760 | 105,902,023,409 | 194,424,888,169 |
| Financial assets at amortised cost-Debt & other instruments | 81,609,274,344 | 5,355,440,338 | 86,964,714,682 |
| Equity Instruments at fair value through other comprehensive income | - | 2,290,929 | 2,290,929 |
| Property, plant and equipment | - | 1,161,828,361 | 1,161,828,361 |
| Intangible assets | - | 112,402,355 | 112,402,355 |
| Right of use assets | - | 860,244,061 | 860,244,061 |
| Deferred tax assets | - | 2,960,017,044 | 2,960,017,044 |
| Other assets | 3,414,214,447 | 3,706,917,155 | 7,121,131,601 |
| **Total assets** | 179,656,273,987 | 120,061,163,652 | 299,717,437,639 |
| **Liabilities** | | | |
| Due to banks | 3,514,258,294 | 42,694,220,989 | 46,208,479,283 |
| Due to other customers | 166,274,427,218 | 59,805,187,554 | 226,079,614,772 |
| Debt issued and other borrowed funds | - | - | - |
| Current tax liabilities | - | - | - |
| Other liabilities | 3,732,121,974 | 3,001,922,329 | 6,734,044,304 |
| Retirement benefit obligation | 299,493,340 | 2,530,084,265 | 2,829,577,605 |
| **Total liabilities** | 173,820,300,826 | 108,031,415,137 | 281,851,715,965 |
| **Maturity Gap** | 5,835,973,161 | 12,029,748,514 | 17,865,721,674 |
| **Cumulative Gap** | 5,835,973,161 | 17,865,721,675 | - |

**As at 31 December 2022**

| **Assets** | **Within 12 Months Rs.** | **After 12 Months Rs.** | **Total Rs.** |
|---|---|---|---|
| Cash and cash equivalent | 2,889,883,677 | - | 2,889,883,677 |
| Placements with banks | 6,133,705,351 | - | 6,133,705,351 |
| Equity Instruments at fair value through profit or loss | 120,280 | - | 120,280 |
| Financial assets at amortised cost-Loans and receivables from other customers | 51,925,223,135 | 146,082,922,020 | 198,008,145,155 |
| Financial assets at amortised cost-Debt & other instruments | 59,743,609,694 | 5,336,026,214 | 65,079,635,908 |
| Equity Instruments at fair value through other comprehensive income | - | 2,289,919 | 2,289,919 |
| Property, plant and equipment | - | 926,615,241 | 926,615,241 |
| Intangible assets | - | 68,867,744 | 68,867,744 |
| Right of use assets | - | 718,096,698 | 718,096,698 |
| Deferred tax assets | - | 3,525,174,919 | 3,525,174,919 |
| Other assets | 3,426,030,585 | 4,616,584,965 | 8,042,615,549 |
| **Total assets** | 124,118,572,723 | 161,276,577,720 | 285,395,150,443 |
| **Liabilities** | | | |
| Due to banks | 3,459,855,516 | 44,010,851,540 | 47,470,707,056 |
| Due to other customers | 151,286,336,343 | 59,014,987,125 | 210,301,323,468 |
| Debt issued and other borrowed funds | 2,000,000,000 | - | 2,000,000,000 |
| Current tax liabilities | 1,011,924,146 | - | 1,011,924,146 |
| Other liabilities | 3,732,121,974 | 3,561,365,287 | 7,293,487,261 |
| Retirement benefit obligation | 299,493,340 | 2,792,087,796 | 3,091,581,136 |
| **Total liabilities** | 161,789,731,318 | 109,379,291,749 | 271,169,023,067 |
| **Maturity Gap** | (37,671,158,596) | 51,897,285,971 | 14,226,127,375 |
| **Cumulative Gap** | (37,671,158,596) | 14,226,127,376 | - |

## 43 FINANCIAL RISK MANAGEMENT

### 43.1 Introduction and Overview

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

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

### 43.1.1 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 specialized risk areas that support the Board Integrated Risk Management Committee.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor 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.

### 43.1.2 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.

### 43.1.3 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).

### 43.1.4 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.

### 43.2 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 authorization structure for the approval and renewal of credit facilities. Authorization 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. Head 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 Head of Credit who may require appropriate corrective action to be taken.

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

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

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

**Credit Quality Analysis**

**The Bank's Delinquency status**

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

| *As at December* | | **2023** | | | | 2022 | | |
|---|---|---|---|---|---|---|---|---|
| | **Stage 1 Rs.** | **Stage 2 Rs.** | **Stage 3 Rs.** | **Total Rs.** | Stage 1 Rs. | Stage 2 Rs. | Stage 3 Rs. | Total Rs. |
| **Financial investments at amortized cost-Debt & other instruments** | | | | | | | | |
| Quoted debentures | 623,946,610 | - | - | 623,946,610 | 623,946,610 | - | - | 623,946,610 |
| Government debt securities-treasury bills & bonds | 60,478,658,961 | - | - | 60,478,658,961 | 4,813,547,891 | - | - | 4,813,547,891 |
| Investment in fixed deposits | 25,864,468,910 | - | - | 25,864,468,910 | 49,420,476,709 | - | - | 49,420,476,709 |
| **Total debt and other instruments** | 86,967,074,481 | - | - | 86,967,074,481 | 54,857,971,211 | - | - | 54,857,971,211 |
| Expected credit loss allowance | (2,359,798) | - | - | (2,359,798) | (2,826,721) | - | - | (2,826,721) |
| **Net debt and other instruments** | 86,964,714,683 | - | - | 86,964,714,683 | 54,855,144,490 | - | - | 54,855,144,490 |
| | | | | | | | | |
| **Placements with banks** | | | | | | | | |
| Money market placements | 6,005,330,402 | - | - | 6,005,330,402 | 6,596,072,932 | - | - | 6,596,072,932 |
| **Total placements with banks** | 6,005,330,402 | - | - | 6,005,330,402 | 6,596,072,932 | - | - | 6,596,072,932 |
| Expected credit loss allowance | - | - | - | - | - | - | - | - |
| **Net placements with banks** | 6,005,330,402 | - | - | 6,005,330,402 | 6,596,072,932 | - | - | 6,596,072,932 |
| | | | | | | | | |
| **Commitments and Contingencies *** | | | | | | | | |
| Bank Guarantee | 366,098,463 | - | - | 366,098,463 | 180,046,018 | - | - | 180,046,018 |
| Bills Send for Collection | 292,019,801 | - | - | 292,019,801 | 207,216,884 | - | - | 207,216,884 |
| **Total commitments and contingencies** | 658,118,265 | - | - | 658,118,265 | 387,262,902 | - | - | 387,262,902 |
| Expected credit loss allowance | (46,090,572) | - | - | (46,090,572) | (6,882,856) | - | - | (6,882,856) |
| **Net commitments and contingencies** | 612,027,693 | - | - | 612,027,693 | 380,380,046 | - | - | 380,380,046 |

* 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.

### 43.2.1 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 2023.

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 | 2024 | 2025 | 2026 | 2027 | Subsequent Years |
|---|---|---|---|---|---|---|
| | | % | % | % | % | |
| **GDP growth %** | | | | | | |
| | Base Case | 1.60% | 1.60% | 1.60% | 1.60% | 1.60% |
| | Best Case | 3.51% | 4.06% | 4.62% | 5.18% | 5.59% |
| | Worse Case | 2.14% | 2.22% | 2.26% | 2.25% | 2.26% |
| **Inflation Rates %** | | | | | | |
| | Base Case | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| | Best Case | 2.55% | 2.19% | 1.87% | 1.60% | 1.27% |
| | Worse Case | 5.55% | 7.02% | 8.86% | 11.18% | 13.07% |
| **Interest Rate %** | | | | | | |
| | Base Case | 12.13% | 12.13% | 12.13% | 12.13% | 12.13% |
| | Best Case | 11.14% | 10.83% | 10.53% | 10.23% | 9.81% |
| | Worse Case | 12.85% | 13.41% | 13.99% | 14.60% | 15.02% |
| **Exchange rates (USD $ to LKR)** | | | | | | |
| | Base Case | 350.00 | 350.00 | 350.00 | 350.00 | 350.00 |
| | Best Case | 288.96 | 257.77 | 229.95 | 205.13 | 182.99 |
| | Worse Case | 350.00 | 350.00 | 350.00 | 350.00 | 350.00 |
| **Unemployment rates %** | | | | | | |
| | Base Case | 4.70% | 4.70% | 4.70% | 4.70% | 4.70% |
| | Best Case | 4.64% | 4.63% | 4.61% | 4.59% | 4.56% |
| | Worse Case | 4.74% | 4.77% | 4.79% | 4.82% | 4.84% |

**Measurement of ECL**

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

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

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.
To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.
The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

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

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

**Sector classification of loans**
The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka.
Of the total sector classification, this report categorized 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, 2023 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 | 44,232,389,013 |
| Refinance | 39,967,038,336 |
| Term Loan - Commercial | 23,425,146,043 |
| Term Loan - Agriculture | 18,307,571,946 |
| Pawning | 45,600,279,410 |
| Term Loan - Industrial | 14,691,995,055 |
| Term Loan - Other | 6,774,006,893 |
| Loan Against Deposit | 14,054,296,935 |
| Staff | 5,864,348,559 |
| Leasing | 896,814,460 |
| SME | 118,110,361 |
| Liya Isura | 30,638,070 |

**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 10 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 10mn.

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

• Product Type
• Interest Rate

### 43.2.2 Collateral held and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, inventories and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated regularly. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

**Definition of Past Due**
Banks consider that any amounts uncollected thirty one days or more beyond their contractual due date are 'past due'.

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

| ***As at 31 December*** | **2023**<br>**Rs.** | 2022<br>Rs. |
|---|---|---|
| **Collateral Type** | | |
| Land & Buildings | 28,705,668,268 | 27,770,254,509 |
| Machinery | 901,920,842 | 1,281,765,425 |
| Motor Vehicles | 948,270,386 | 2,518,646,804 |
| Gold | 45,605,107,198 | 42,217,210,774 |
| Fixed Deposits | 14,327,361,268 | 10,333,536,604 |
| Personal Guarantees | 112,964,945,642 | 117,387,564,475 |
| Bank Guarantees | 500,448 | 756,422 |
| Others | 10,508,861,028 | 13,862,766,869 |
| | 213,962,635,079 | 215,372,501,881 |

| ***As at 31 December*** | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Maximum Exposure to Credit Risk**<br>**Rs.** | **Exposure Net of Collateral**<br>**Rs.** | Maximum Exposure to Credit Risk<br>Rs. | Exposure Net of Collateral<br>Rs. |
| Cash and cash equivalent | 104,444,214 | 104,444,214 | 2,889,883,677 | 2,889,883,677 |
| Placements with Banks | 6,005,330,402 | 6,005,330,402 | 6,133,705,351 | 6,133,705,351 |
| Equity Instruments at fair value through profit or loss | 145,820 | 145,820 | 120,280 | 120,280 |
| Financial assets at amortised cost-Loans and receivables from other customers | 213,962,635,079 | 186,062,148,016 | 215,372,501,881 | 131,251,087,765 |
| Financial investments at amortised cost-Debt & other instruments | 86,964,714,682 | 86,964,714,682 | 65,079,635,909 | 65,079,635,908 |
| Equity Instruments at fair value through Profit or loss | 2,290,929 | 2,290,929 | 2,289,919 | 2,289,919 |
| Other assets | 4,431,547,579 | 4,431,547,579 | 6,018,325,952 | 6,018,325,952 |

| ***As at 31 December*** | **Forced Sale Value of Foreclosed Collateral** | |
|---|---|---|
| **Foreclosed Properties** | **2023** | 2022 |
| | Rs. | Rs. |
| Balance as at 01 January | **165,450,000** | 165,450,000 |
| Additions during the year | **15,230,145** | - |
| Disposals during the year | **-** | - |
| Valuation changes | **-** | - |
| **Balance as at 31 December** | **180,680,145** | 165,450,000 |

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

**Loan-to-value ratio (LTV)**

**Residential Mortgage lending**
The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross 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* | **2023**<br>**Rs.** | 2022<br>Rs. |
|---|---|---|
| **LTV ratio** | | |
| Less than 50% | 12,800,091,156 | 28,440,620,295 |
| 51-70% | 4,388,489,979 | - |
| 71-90% | 888,656,046 | - |
| 91-100% | 9,369,892,053 | - |
| More than 100% | 1,258,539,035 | - |
| **Total** | **28,705,668,268** | 28,440,620,295 |

### 43.2.3 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 | |
|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | Rs. | Rs. | **Rs.** | Rs. | **Rs.** | Rs. |
| Carrying amount | 213,962,635,079 | 215,372,501,881 | 86,967,074,481 | 65,082,462,630 | 658,118,265 | 387,262,902 |
| **Amounts committed/ guaranteed** | | | | | | |
| **Concentration by sector** | | | | | | |
| **Corporate:** | | | | | | |
| Other | - | - | - | - | 658,118,265 | 387,262,902 |
| Government | - | - | 60,478,658,961 | 11,487,849,406 | - | - |
| Banks | - | - | 26,488,415,520 | 53,594,613,224 | - | - |
| **Retail:** | | | | | | |
| Personal Guarantee | 112,964,945,642 | 117,387,564,475 | - | - | - | - |
| Mortgages | 90,488,828,409 | 84,122,170,538 | - | - | - | - |
| Unsecured lending | 10,508,861,028 | 13,862,766,869 | - | - | - | - |
| | 213,962,635,079 | 215,372,501,881 | 86,967,074,481 | 65,082,462,630 | 658,118,265 | 387,262,902 |
| | | - | - | - | - | - |

### 43.3 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.

### 43.3.1 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:

| | **2023** | 2022 |
|---|---|---|
| | **DBU %** | DBU % |
| At 31 December | 38.73% | 27.83% |
| Average for the year | 33.30% | 27.16% |
| Maximum for the year | 29.78% | 29.78% |
| Minimum for the year | 38.73% | 25.10% |

**43.3.2 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 2023. 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 2023 | 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 | **46,208,479,283** | **46,208,479,283** | **772,199,475** | **2,742,058,819** | **5,483,925,638** | **13,849,520,901** | **23,360,774,450** |
| Due to other customers | **226,079,614,772** | **226,079,614,772** | **56,226,684,689** | **110,047,742,530** | **11,643,421,155** | **16,465,228,165** | **31,696,538,235** |
| Other liabilities | **6,734,044,304** | **6,734,044,304** | **949,813,113** | **1,342,693,165** | **1,702,442,543** | **1,258,158,953** | **1,480,936,529** |
| **Total Non - Derivative Liabilities** | **279,022,138,360** | **279,022,138,360** | **57,948,697,277** | **114,132,494,513** | **18,829,789,337** | **31,572,908,019** | **56,538,249,214** |

| As at 31 December 2022 | 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 | 47,470,707,056 | 47,470,707,056 | 341,729,856 | 3,118,125,660 | 4,440,243,697 | 14,000,065,209 | 25,570,542,634 |
| Due to other customers | 210,301,323,468 | 210,301,323,468 | 39,028,814,697 | 112,257,521,646 | 11,660,479,038 | 15,939,669,814 | 31,414,838,273 |
| Debt issued and other borrowed funds | - | 2,076,176,663 | 2,076,176,663 | - | - | - | - |
| Other liabilities | 7,497,705,603 | 7,497,705,603 | 1,713,880,930 | 1,710,127,400 | 1,457,098,980 | 1,135,661,764 | 1,480,936,529 |
| **Total Non - Derivative Liabilities** | 265,269,736,127 | 267,345,912,791 | 43,160,602,145 | 117,085,774,707 | 17,557,821,716 | 31,075,396,787 | 58,466,317,437 |

**43.3.3 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 2023<br>Contingent Liabilities | On Demand<br>Rs. | Less than 3 Months<br>Rs. | 3 to 12 Months<br>Rs. | 1 to 5 Years<br>Rs. | Over 5 Years<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|---|---|
| Bank guarantee (without impairment) | | 1,416,330 | 338,030,015 | 26,652,118 | - | 366,098,463 |
| Other Contingent items-Bills sent for collection | 292,019,801 | - | - | - | - | 292,019,801 |
| **Total Contingent Liabilities** | **292,019,801** | **1,416,330** | **338,030,015** | **26,652,118** | **-** | **658,118,265** |

| As at 31 December 2022<br>Contingent Liabilities | On Demand<br>Rs. | Less than 3 Months<br>Rs. | 3 to 12 Months<br>Rs. | 1 to 5 Years<br>Rs. | Over 5 Years<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|---|---|
| Bank guarantee (without impairment) | | 696,547 | 166,242,048 | 13,107,424 | - | 180,046,018 |
| Other Contingent items-Bills sent for collection | 207,216,884 | - | - | - | - | 207,216,884 |
| **Total Contingent Liabilities** | **207,216,884** | **696,547** | **166,242,048** | **13,107,424** | **-** | **387,262,902** |

**43.3.4 Liquidity Reserve**

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

| | 2023<br>Carrying Amount | <br>Fair Value |
|---|---|---|
| Cash and Cash equivalents | **104,444,214** | **104,444,214** |
| Placements with banks | **3,080,330,402** | **3,080,330,402** |
| Repo | **2,925,000,000** | **2,925,000,000** |
| Fixed Deposits | **25,864,468,910** | **25,864,468,910** |
| | **31,974,243,526** | **31,974,243,526** |

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

**43.3.5 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 31 December 2023 with enhanced supervision and frequent reporting.

**Minimum Requirement (%) - effective from**

| 1 July 2021 | May 2020 to 31 December 2023 |
|---|---|
| 100 | 90 |

| | | |
|---|---|---|
| The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December: | **2023** | 2022 |
| Rupee Liquidity Requirement for Local Currency Operations | **976** | 167 |

**43.3.6 Statutory Liquid Assets Ratio**

| | |
|---|---|
| **For the month of December 2023** | **38.73%** |
| For the month of December 2022 | 27.83% |

**43.3.7 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 2023** | **86.58%** |
| As at 31st December 2022 | 95.81% |

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 31.12.2023 and 31.12.2022.

| | **2023** | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Encumbered** | | **Unencumbered** | | Encumbered | | Unencumbered | |
| | **Pledged as collateral** | **Other** | **Other** | **Total** | Pledged as collateral | Other | Other | Total |
| Cash and cash equivalent | **-** | **-** | **104,444,214** | **104,444,214** | - | - | 2,889,883,677 | 2,889,883,677 |
| Placements with banks | **-** | **-** | **6,005,330,402** | **6,005,330,402** | - | - | 6,133,705,351 | 6,133,705,351 |
| Equity Instruments at fair value through profit or loss | **-** | **-** | **145,820** | **145,820** | - | - | 120,280 | 120,280 |
| Financial assets at amortised cost-Loans and receivables from other customers | **-** | **-** | **194,424,888,169** | **194,424,888,169** | - | - | 198,008,145,155 | 198,008,145,155 |
| Financial assets at amortised cost-Debt & other instruments | **1,593,912,059** | **-** | **85,370,802,623** | **86,964,714,682** | 1,347,726,270 | - | 63,731,909,638 | 65,079,635,908 |
| Equity Instruments at fair value through other comprehensive income | **-** | **-** | **2,290,929** | **2,290,929** | - | - | 2,289,919 | 2,289,919 |
| Other assets | **-** | **-** | **6,617,542,021** | **6,617,542,021** | - | - | 8,042,615,550 | 8,042,615,550 |
| **Total** | **1,593,912,059** | **-** | **292,525,444,178** | **294,119,356,237** | 1,347,726,270 | - | 278,808,669,570 | 280,156,395,840 |

## 43.4 Market Risk

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

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

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

| | | Market risk measure | |
|---|---|---|---|
| **As at 31st December 2023** | **Carrying amount** | **Trading portfolios** | **Non-trading portfolios** |
| **Assets subject to Market risk** | | | |
| Cash and cash equivalent | 104,444,214 | - | 104,444,214 |
| Placements with banks | 6,005,330,402 | - | 6,005,330,402 |
| Equity Instruments at fair value through profit or loss | 145,820 | 145,820 | - |
| Financial investments at amortised cost-Debt & other instruments | 86,964,714,682 | - | 86,964,714,682 |
| Financial assets at amortised cost-Loans and receivables from other customers | 194,424,888,169 | - | 194,424,888,169 |
| Equity Instruments at fair value through other comprehensive income | 2,290,929 | - | 2,290,929 |
| Other assets | 4,431,547,579 | - | 4,431,547,579 |
| | | | |
| **Liabilities subject to Market risk** | | | |
| Due to banks | 46,208,479,283 | - | 46,208,479,283 |
| Due to other customers | 226,079,614,772 | - | 226,079,614,772 |
| Debt issued and other borrowed funds | - | - | - |
| Current tax liabilities | - | - | - |
| Other liabilities | 5,446,759,311 | - | 5,446,759,311 |

| | | Market risk measure | |
|---|---|---|---|
| **As at 31st December 2022** | **Carrying amount** | **Trading portfolios** | **Non-trading portfolios** |
| **Assets subject to Market risk** | | | |
| Cash and cash equivalent | 2,889,883,677 | - | 2,889,883,677 |
| Placements with banks | 6,133,705,351 | - | 6,133,705,351 |
| Equity Instruments at fair value through profit or loss | 120,280 | 120,280 | - |
| Financial investments at amortised cost-Debt & other instruments | 65,079,635,908 | - | 65,079,635,908 |
| Financial assets at amortised cost-Loans and receivables from other customers | 198,008,145,155 | - | 198,008,145,155 |
| Equity Instruments at fair value through other comprehensive income | 2,289,919 | - | 2,289,919 |
| Other assets | 6,018,325,952 | - | 6,018,325,952 |
| | | | |
| **Liabilities subject to Market risk** | | | |
| Due to banks | 47,470,707,056 | - | 47,470,707,056 |
| Due to other customers | 210,301,323,468 | - | 210,301,323,468 |
| Debt issued and other borrowed funds | - | - | - |
| Current tax liabilities | 1,011,924,146 | - | 1,011,924,146 |
| Other liabilities | 6,426,430,198 | - | 6,426,430,198 |

**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.

### 43.4.1 Interest Rate Risk

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

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

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

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

**Interest Rate Risk in the Banking Book (IRRBB)**

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

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

During the current year as well as the preceding year banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2023, 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.

### 43.4.2 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 2023, 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 2023** | **Carrying amount** | **Up to 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Over 5 Years** |
|---|---|---|---|---|---|
| | **Rs.** | **Rs.** | **Rs.** | **Rs.** | **Rs.** |
| **Interest Earning Assets** | | | | | |
| Cash and balances with central bank | 104,444,214 | 104,444,214 | - | - | - |
| Placements with banks | 6,005,330,402 | 6,005,330,402 | - | - | - |
| Financial assets at amortised cost-Loans and receivables from other customers | 213,962,635,079 | 20,765,534,350 | 68,158,625,869 | 88,021,524,268 | 37,016,950,592 |
| Financial investments at amortised cost-Debt & other instruments | 86,967,074,481 | 44,558,271,660 | 36,460,255,964 | 618,993,939 | 5,329,552,919 |
| Financial assets-fair value through other comprehensive income | 2,290,929 | - | - | - | 2,290,929 |
| **Total Assets** | 307,041,775,105 | 71,433,580,626 | 104,618,881,833 | 88,640,518,207 | 42,348,794,440 |
| | | | - | | |
| **Interest Bearing Liabilities** | | | | | |
| Due to banks | 46,208,479,283 | 772,199,475 | 2,742,058,819 | 19,333,446,539 | 23,360,774,450 |
| Due to other customers | 226,079,614,772 | 56,226,684,689 | 110,047,742,530 | 28,108,649,320 | 31,696,538,235 |
| **Total Liabilities** | 272,288,094,056 | 56,998,884,163 | 112,789,801,349 | 47,442,095,859 | 55,057,312,684 |
| **Gaps** | 34,753,681,049 | 14,434,696,462 | (8,170,919,516) | 41,198,422,348 | (12,708,518,245) |

| **As at 31 December 2022** | **Carrying amount** | **Up to 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Over 5 Years** |
|---|---|---|---|---|---|
| | **Rs.** | **Rs.** | **Rs.** | **Rs.** | **Rs.** |
| **Interest Earning Assets** | | | | | |
| Cash and balances with central bank | 2,889,883,677 | 2,889,883,677 | - | - | - |
| Placements with banks | 6,133,705,351 | 6,133,705,351 | - | - | - |
| Financial assets at amortised cost-Loans and receivables from other customers | 215,372,501,881 | 20,765,534,350 | 68,158,625,869 | 88,021,524,268 | 38,426,817,393 |
| Financial investments at amortised cost-Debt & other instruments | 65,082,462,630 | 36,189,771,645 | 22,925,323,999 | 4,858,812,738 | 1,108,554,248 |
| Financial assets-fair value through other comprehensive income | 2,289,919 | - | - | - | 2,289,919 |
| **Total Assets** | 289,480,843,458 | 65,978,895,023 | 91,083,949,869 | 92,880,337,006 | 39,537,661,560 |
| **Interest Bearing Liabilities** | | | | | |
| Due to banks | 47,470,707,056 | 341,729,856 | 3,118,125,660 | 18,440,308,907 | 25,570,542,634 |
| Due to other customers | 210,301,323,468 | 39,028,814,697 | 112,257,521,646 | 27,600,148,852 | 31,414,838,273 |
| Debt issued and other borrowed funds | 2,000,000,000 | 2,000,000,000 | - | - | - |
| **Total Liabilities** | 259,772,030,524 | 41,370,544,552 | 115,375,647,306 | 46,040,457,757 | 56,985,380,907 |
| **Gaps** | 29,708,812,934 | 24,608,350,471 | (24,291,697,438) | 46,839,879,249 | (17,447,719,348) |

**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.

### 43.4.3 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 363 levels.

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

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

| | **In Original Foreign Currency** | | **Functional Currency of the Bank** | |
|---|---|---|---|---|
| *As at 31 December* | **2023** | 2022 | **2023** | 2022 |
| | **USD** | USD | **Rs.** | Rs. |
| **Net Foreign Currency Exposure** | | | | |
| Financial assets denominated in foreign currency | **73,300,451** | 68,070,895 | **23,747,880,017** | 24,913,947,739 |
| Financial liabilities denominated in foreign currency | **62,295,743** | 63,099,435 | **20,182,575,095** | 23,094,393,092 |

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* | **2023** | | 2022 | |
|---|---|---|---|---|
| | **USD** | **Rs.** | USD | Rs. |
| NOP | **11,004,707** | **3,565,304,922** | 4,971,461 | 1,819,554,647 |
| **At Shocks Level of** | **Revised Rupee position** | **Effect on income statement** | Revised Rupee position | Effect on income statement |
| 5% | 3,743,570,168 | 178,265,246 | 1,910,532,380 | 90,977,732 |
| 10% | 3,921,835,414 | 356,530,492 | 2,001,510,112 | 181,955,465 |
| 15% | 4,100,100,660 | 534,795,738 | 2,092,487,844 | 272,933,197 |

### 43.5 Operational Risk

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

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

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

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

## 44 CAPITAL MANAGEMENT

### 44.1 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.

### 44.2 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.

### 44.3 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.

• 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 | 7.00% |
| Total Tier 1 including Capital Conservation Buffer | 8.50% |
| Total Capital Ratio including Capital Conservation Buffer | 12.50% |

The Bank Capital Adequacy (Basel III) details as at 31 December 2023 are given below.

| | Basel III | |
|---|---|---|
| *As at December* | **2023** | 2022 |
| | **Rs.** | Rs. |
| **Assets** | | |
| Total Risk Weighted Amount (including Off- Balance Sheet Items) | 139,300,627,344 | 143,939,205,752 |
| Risk Weighted amount of Off-Balance Sheet Exposure | 183,044,933 | 35,609,204 |
| **Capital** | | |
| Common Equity Tier 1Capital | 14,050,486,780 | 11,932,386,377 |
| Total Tier 1 Capital | 14,050,486,780 | 11,932,386,377 |
| Total Capital | 24,069,017,123 | 21,908,992,974 |
| **Capital Adequacy Ratios** | | |
| Common Equity Tier 1 Capital Ratio (%) | 10.09% | 8.29% |
| Tier 1 Capital Ratio (%) | 10.09% | 8.29% |
| Total Capital Ratio (%) | 17.28% | 15.22% |

## 45 FAIR VALUE OF FINANCIAL INSTRUMENTS

### 45.1 Determining Fair Values

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

Level 1 – Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable fro market data.

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

### 45.2 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.

### 45.3 Valuation Framework

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

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

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

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

**45.4 Financial InstrumentsMeasured at Fair Value – Fair Value Hierarchy**

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

| **As at 31 December** | | | **2023** | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **Rs.** | **Rs.** | **Rs.** | **Rs.** |
| **Equity Instruments at fair value through profit or loss** | **145,820** | **-** | **-** | **145,820** |
| **Financial assets-fair value through other comprehensive income** | **-** | **-** | **2,290,929** | **2,290,929** |
| | **145,820** | **-** | **2,290,929** | **2,436,749** |

| As at 31 December | | | 2022 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | Rs. | Rs. | Rs. | Rs. |
| Equity Instruments at fair value through profit or loss | 120,280 | - | - | 120,280 |
| Financial assets-fair value through other comprehensive income | - | - | 2,289,919 | 2,289,919 |
| | 120,280 | - | 2,289,919 | 2,410,199 |

**45.5 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.

**45.6 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.

| | | **2023** | | 2022 | |
|---|---|---|---|---|---|
| | **Fair value hierarchy** | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| **Financial assets** | | **Rs.** | **Rs.** | Rs. | Rs. |
| Cash and cash equivalent | Level 2 | **104,444,214** | **104,444,214** | 2,889,883,677 | 2,889,883,677 |
| Placements with Banks | Level 2 | **6,005,330,402** | **6,005,330,402** | 6,133,705,351 | 6,133,705,351 |
| Financial assets at amortised cost - Debt & other instruments | Level 2 | **86,964,714,682** | **86,964,714,682** | 65,079,635,908 | 65,079,635,908 |
| Financial assets at amortised cost - Loans and receivables from other customers | | | | | |
| Pawning | Level 2 | **45,600,279,410** | **45,600,279,410** | 42,234,452,674 | 42,234,452,674 |
| Staff loans | Level 2 | **5,864,336,559** | **5,864,336,559** | 5,501,098,905 | 5,501,098,905 |
| Short-term | Level 2 | **17,706,900,606** | **17,706,900,606** | 13,716,623,362 | 13,716,623,362 |
| Long-term | Level 2 | **143,894,304,044** | **143,894,304,044** | 152,522,804,644 | 152,522,804,644 |
| Other assets | Level 2 | **4,431,547,579** | **4,431,547,579** | 6,018,325,952 | 6,018,325,952 |
| | | **310,571,857,496** | **310,571,857,496** | 294,096,530,472 | 294,096,530,472 |
| **Financial liabilities** | | | | | |
| Due to banks | Level 2 | **46,208,479,283** | **46,208,479,283** | 47,470,707,056 | 47,470,707,056 |
| Due to other customers | Level 2 | **226,079,614,772** | **226,079,614,772** | 210,301,323,468 | 210,301,323,468 |
| Debt issued and other borrowed funds | Level 2 | - | - | - | - |
| Other liabilities | Level 2 | **5,446,759,311** | **5,446,759,311** | 6,426,430,198 | 6,426,430,198 |
| | | **277,734,853,367** | **277,734,853,367** | 264,198,460,722 | 264,198,460,722 |

**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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பிரதேச அபிவிருத்தி வங்கி

Regional Development Bank