

ANNUAL REPORT 2020

Creating Futures and Reaching New Heights



பிரதேச வுருத்தி வங்கி
பிரதேச வுருத்தி வங்கி
Regional Development Bank



Creating Futures and Reaching New Heights



In all its forms, across centuries of evolution, denominations have been an instrument of commercial growth and economic prosperity transforming every aspect of people's lives.

In much the same way, Regional Development Bank has been a part of economic growth, merging grassroot communities with the country's economic landscape. At RDB, we are not only a bank but a medium for economic growth and financial sustenance. Our passion for uplifting all communities has made us the nation's development bank – bringing a wealth of financial solutions to empower and nurture millions of success stories across the nation.

And we continue, stronger than ever, more focused than ever - growing as a denomination of economic growth and a source of financial empowerment for the entire nation.



Content

ABOUT US

Vision, Mission and About RDB	Our Journey/ Milestones	Financial Highlights
03	04	06



Chairman's Message

08



Acting General Manager's/ Chief Executive Officer's Review

12

STEWARDSHIP

Board of Directors	Corporate Management Team	Regional General Managers/ Senior Assistant General Managers	Assistant General Managers/ Heads of Divisions
16	22	24	26

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review	Customer and Relationship Review	Information Technology Review	Marketing Review	Society and Environmental Review	Employee Review	Special Events	Risk Management
32	35	38	39	44	45	47	51

CORPORATE GOVERNANCE

Auditor General's Report on Corporate Governance	Corporate Governance	Attendance of the Board and Board Committees	Annual Report of the Board of Directors	Board Audit Committee (BAC) Report
60	61	83	84	90
Board Human Resources and Remuneration Committee (BHRRC), Board Nomination Committee (BNC) Report	Board ICT Committee (BICTC) Report	Integrated Risk Management Committee Report		
92	94	95		
Chief Executive Officer's and Chief Financial Officer's Responsibility Statement	Directors' Responsibility for Financial Reporting	Auditor General's Report on the Statement of Internal Control	Directors' Statement on Internal Control over Financial Reporting	
97	98	99	101	

Vision

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

Mission

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

About RDB

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

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

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

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

Today, with over six million loyal account holders complemented by 276 branches and empowered by over 2,660 professional permanent staff members, the RDB is well equipped to implement its vision of nurturing entrepreneurs who will propel our country's socio-economic prosperity.

FINANCIAL REPORTS

Auditor General's Report	Income Statement	Statement of Comprehensive Income	Statement of Financial Position
104	109	110	111
Statement of Cash Flows	Statement of Changes in Equity	Notes to the Financial Statements	
112	113	114	

SUPPLEMENTARY INFORMATION

Three Year Summary	Investor Information	Geographical Distribution of Branches	Notes
206	208	209	212

Our Journey & Milestones

One National Level Regional Development Bank



**"RDB achieved
LKR 221 Bn.
Total Assets
within Ten + years
after merging in
2010"**



Total Deposit growth

441%

FROM LKR 32 BN. TO LKR 173 BN.



Total Loans and Advances growth

456%

FROM LKR 30 BN. TO LKR 167 BN.



Total Assets growth

439%

FROM LKR 41 BN. TO LKR 221 BN.



Operating Profit growth

456%

FROM LKR 371 MN. TO LKR 2,061 MN.



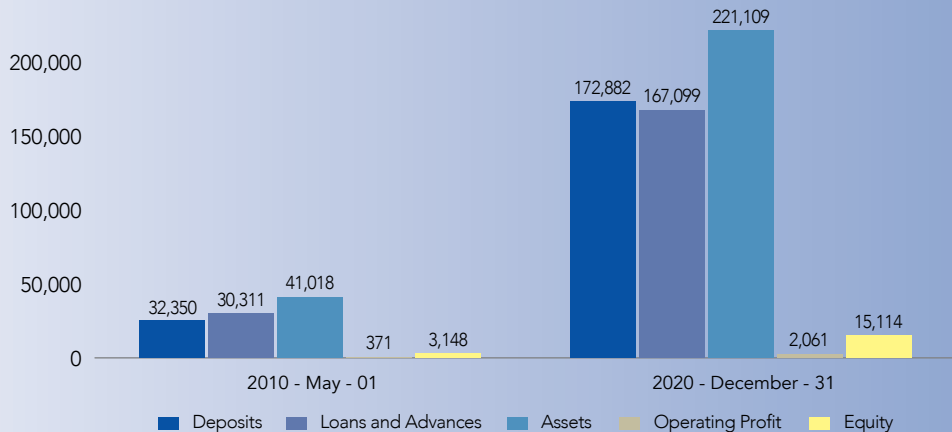
Total Equity growth

403%

FROM LKR 3 BN. TO LKR 15.1 BN.

GROWTH FROM 2010 MAY TO 2020 DECEMBER

LKR Mn 250,000



Results achieved by Provincial Development Banks (i.e. Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks.) during the Twenty-Four years period from 1985 to 2009, have drastically improved during the Ten + years period (2010-2020) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

FROM MAY 2010 TO DECEMBER 2020

- ✓ Total Deposits of RDB has increased by LKR 141 Bn. from LKR 32,350 Mn to LKR 172,882 Mn.
- ✓ Total Loans and Advances of RDB has increased by LKR 137 Bn. from LKR 30,311 Mn to LKR 167,100 Mn.
- ✓ Total Asset of RDB has increased by LKR 180 Bn. from LKR 41,018 Mn. to LKR 221,109 Mn.

HISTORY OF RDB

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



FINANCIAL HIGHLIGHTS

- As a financial institution dedicated to development banking, Regional Development Bank continues to play a vital role in the uplifting of social and economic development activities in the country. The Bank has been in the forefront of almost all the development programmes in the Island playing

a significant role as a financier. Our key asset is our customer base of over six million spread throughout the country, including North and East. Development of the country and its people is the main focus of the Bank. Hence, the Bank is committed to empowering them and thereby developing the nation through its 276 branches in the islandwide network.

- Total income of the Bank has decreased by 11% compared to the previous year. In the year 2020, operating profit decreased to LKR 2,061 Mn, which is 30% less than the operating profit of LKR 2,960 Mn, recorded in 2019. Return on Assets (ROA) before tax has recorded as 0.98% that stood at 1.6% in 2019.

SUPPORT SERVICES TO OUR CUSTOMERS.

- **Western Union with NDB** - Money transfers through the Western Union is easier and speedy way to transfer funds with total security from any foreign destination to our country and customers are able to collect them through all branches of the RDB which are widely located in rural and semi urban areas. 
- **Lanka Money Transfer (LMT) with DFCC** - Lanka Money Transfer remits money directly & instantly to customer bank account with no downtime. Lanka Money Transfer is with a wide international network consisting of over 275 locations and this service available at 276 RDB branches islandwide. 
- **Utility Bills Payment Service** with Sri Lanka Telecom, Ceylon Electricity Board (CEB), National Water Supply and Drainage Board (NWSDB)
- **RDB ATM and LankaPay ATM facility** – Now our customers are able to withdraw their money at any one of over 4000 ATMs island-wide. Approximately 278,000 ATM cards have been issued to customers as of now.
- **Common Electronic Fund Transfer (CEFT) System** – Inter Bank fund transfer facility is available for our Customers.
- **Cash Deposit Machines (CDM)** – Available at selected branches.

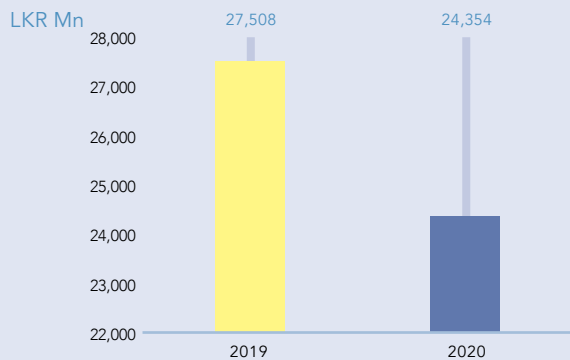
Financial Highlights

	2020 LKR'000	2019 LKR'000	Change %
Operating results for the year			
Gross income	24,354,247	27,507,821	-11%
Operating profit before VAT	2,060,859	2,960,258	-30%
Taxation	1,656,823	2,461,663	-33%
Profit after tax	404,036	498,595	-19%
Profit attributable to shareholders	148,995	418,126	-64%
Assets & liabilities			
Customer deposits	172,882,607	149,599,829	16%
Loans & receivables	167,099,050	144,693,551	15%
Total assets	221,109,151	199,978,929	11%
Total liabilities	205,994,834	185,013,608	11%
Shareholder's fund	15,114,317	14,965,322	1%
Profitability			
Return on assets (Operating Profits)	0.98%	1.57%	-0.48%
Return on equity	2.72%	3.36%	-0.64%
Non performing loan ratio	10.11%	9.63%	0.48%

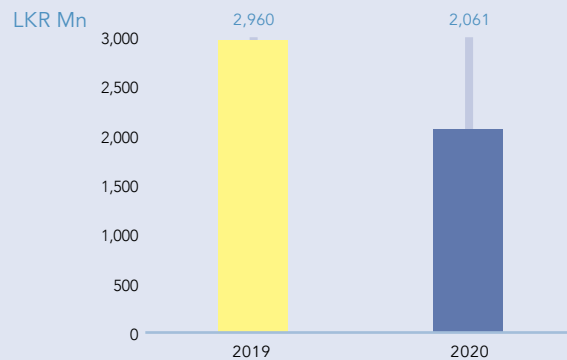
REGULATORY RATIOS

Capital Adequacy Ratios (As Per BASEL III)	2020 %	Minimun Requirement	2019 %	Minimun Requirement
Common equity tier 1 capital ratio	10.34%	7.0%	10.90%	7.0%
Total tier 1 capital ratio	10.34%	8.5%	10.90%	8.5%
Total capital ratio	14.94%	12.5%	16.27%	12.5%
Statutory liquid assets ratio	29.30%	20.0%	32.38%	20.0%

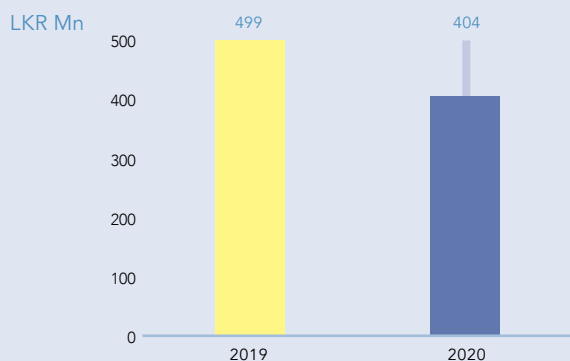
GROSS INCOME



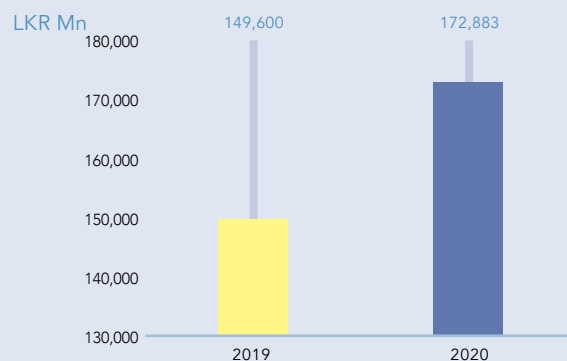
OPERATING PROFIT BEFORE TAXES



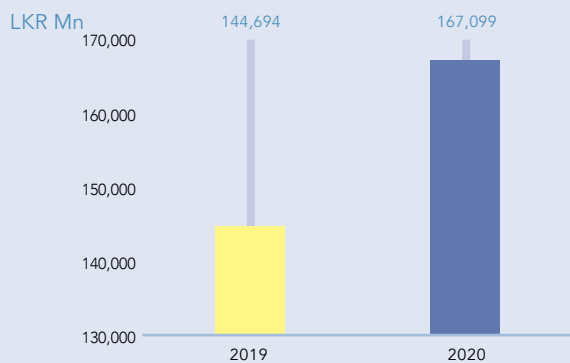
PROFIT AFTER TAX



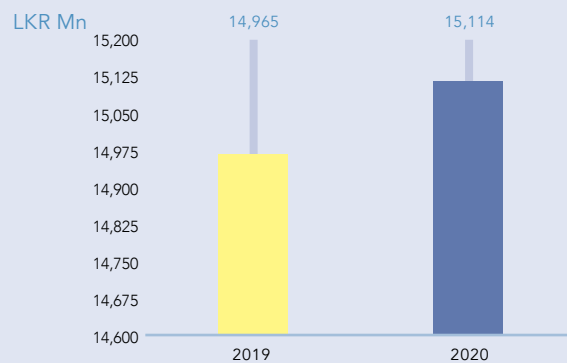
CUSTOMER DEPOSITS



LOANS & RECEIVABLES



SHAREHOLDERS' EQUITY



Chairman's Message





As Pradeshiya Sanwardana Bank, commonly known as Regional Development Bank (RDB), completes another year, I am pleased to submit this message to the Annual Report 2020 where we will glance back at what has been a year full of unprecedented challenges.

MAHINDA SALIYA
CHAIRMAN

I am proud to state that as a prominent development bank in the country, we were able to sustain our banking activities during the year in spite of the face of the COVID-19 pandemic that brought unforeseen hardships not only to Sri Lankans but to the whole world. The pandemic started spreading in Sri Lanka less than 12 months after the horrific Easter Sunday attacks 2019 which meant the economy had very little time to recover before being hit by yet another catastrophe.

As a result of the pandemic, the global economy deteriorated alarmingly during the year with economic activities of virtually all nations slowing down drastically. According to reports of the Central Bank of Sri Lanka (CBSL), the Sri Lankan economy is also recorded a downturn trend by 3.6% in 2020.

The onset of the pandemic brought about two lockdowns during 2020 and this understandably sent the economy into a severe drawback, which marked a significant drop in the financial performance in all aspects of the Bank's activities which prolonged till the 3rd quarter of the year. However, I must highlight the fact that the dedicated team at the Bank rose to the occasion admirably by demonstrating passion, commitment and hard work to manage the banking activities to a satisfactory level and end the year on a positive note.

During the year, in order to revive the slow growth of economic activities due to the country's adverse situation, the Government took several policy decisions to manage the situation. Maintaining the interest rates in the economy at a lower level with the aim of kick-starting the economy was one of them. Resultantly, the CBSL took several positive steps to reduce the prevalent lending rates to not more than 10% in the market which also meant that the interest for deposits also portrayed a downward trajectory.

The Bank was able to play a vital role in successfully implementing the Government's initiatives introduced to uplift the lives of the people of the country and equip them better to face the challenges posed by the pandemic. We were able to provide financial concessions for more than 58,000 customers under the "Punarjeewana" programme and for more than 350,000 customers under the Loan Moratorium facility which was introduced by the Government.

Chairman's Message

The Bank adhered to the measures introduced by the CBSL and the Government to support and strengthen the entrepreneurs and general public through loan moratoriums, lowest interest rate schemes for capital and working capital requirements with reduced interest rates under the "Saubhagya Scheme", among many other facilities.

During the year, the Total Deposits increased by 15% to LKR 173 Bn. while the Total Loans and Advances increased by 15% to LKR 167 Bn. However, the Non-Performing Ratio showed a marginal increase up to 10.11% in the year when compared to the 9.63% registered in the year 2019.

We were able to open a bank window in the newly opened Manning Market, Peliyagoda. I think this is a positive initiative achieved by us to serve the farmers and vendors involved in business activities in the market.

The Bank adhered to the measures introduced by the CBSL and the Government to support and strengthen the entrepreneurs and general public through loan moratoriums, lowest interest rate schemes for capital and working capital requirements with reduced interest rates under the "Saubhagya Scheme", among many other facilities.

With the above facilities, Bank has taken a great effort to maintain the lending rates ranging from 4% to 10%. These measures went a long way to help maintain the livelihood of our valued customers and thereby ensured to support the continuation of economic activities of the country. We also introduced the "Ulpatha" Loan Scheme with the objective of encouraging customers to utilise their home gardens to cultivate crops when they were hit by the COVID-19 pandemic. This loan scheme allowed them to stay active during the pandemic by keeping them occupied with a healthy and beneficial activity and also helped them contribute towards the economy in their respective villages through the sale of their produce. Overall, we were able to grant over 5,000 Ulpatha loans and make a positive impact in the lives of thousands of Sri Lankans. Additionally, as the first lockdown unfolded in the country, I am proud to state that our Bank was the first financial institution in the country to introduce the Mobile Banking facility that made a significant difference in providing banking services to our customers while keeping them safe.

During the year, the Bank went live on Chat Box facility, thereby enabling us to accelerate our digital presence across the country and provide innovative and simple financial solutions to our customer base. At this juncture, I must point out that the Banking industry in Sri Lanka has made significant stride in embracing the latest technology. Even though the Bank's technology standpoint had few lapses, I believe this latest initiative is a step in the right direction and augurs well for our future in terms of technological advancements.

2021 AND BEYOND

Looking ahead at the year 2021, one of the key lessons from this pandemic is that we must always remember to bow down to the power of Mother Nature and be flexible in our approach so that we can adapt to any challenges posed by natural forces. I am confident that given our reasonably good performance in the face of mounting challenges, in the new year the Bank will be able to make bold strides in numerous areas if we could control the pandemic in near future. In terms of expanding our footprint across the island, we intend to open 2 branches in the Northern Province. We will continue to make all possible efforts to provide our customers with the financial tools and knowledge to

grow their businesses so that each and every one of them can contribute towards Sri Lanka's growth. Within this context, I believe we have two main tasks. The first is to support to promote foreign exchange earning industries in the country with the aim of boosting our foreign exchange revenue. Secondly, we plan to provide the fullest support to promote SMEs which substitute imports which will enable us to become a more self-sufficient nation in the long run.

As a Bank that aims to strengthen women entrepreneurs, we have introduced a programme to encourage and support them to develop their business enterprises. In 2021, we plan to develop 10,000 women entrepreneurs and reward the winners with cash awards. We are also making plans to deploy a Loan Originating System (LOS) which I feel is a much-needed IT system that will fast track the loan procedures. Currently, the manual loan procedure is taking much lengthy time whereas the deployment of an LOS will enable us to reduce this time period to approximately one month which would go a long way in providing an excellent service to our valued customers. QR system is one of the emerging modern technology method for many transaction activities. Thus our focus is also have strongly been paved for this initiative.

The Bank will continue to focus on increasing the quality of loans so that we are able to enhance our loan portfolio in order to better face an increasingly uncertain future. At the same time, we plan to work towards educating our customers on financial literacy and discipline, the lack of which is one of the biggest issues in the country. Plans are afoot to carry out more educational programmes to raise awareness on how to earn, save, spend and invest prudently in order for our customers to grow their businesses and lead balanced, healthy lives free from financial worries. It is also important that they understand the importance of providing high quality goods and service as this presents them with the best opportunity to retain customers and expand their businesses.

ACKNOWLEDGMENTS

On behalf of our Board of Directors, I would like to convey my gratitude to the millions of customers and our other stakeholders for their continued loyalty

to the Bank even during these difficult times. I am also grateful to the management staff including staff members all our employees who have gone above and beyond their call of duty to uplift the livelihood of our valued customers and thereby safeguard the Bank during this extremely difficult year. Even during this tough period, we were able to help thousands of customers from rural areas, which is an unparalleled victory for the Bank. As always, while working hard and demonstrating passion, we must look ahead positivity to overcome all obstacles and build a prosperous future.



Mahinda Saliya
Chairman

Acting General Manager's/ Chief Executive Officer's Review



As the year 2020 draws to a close, it will be remembered as the year Pradeshiya Sanwardana Bank, also known as Regional Development Bank (RDB), completed 11 years as a national level bank, having come a long way from its origins of a regional level bank with a history of more than 35 years. As the Acting General Manager/CEO, it gives me great pleasure to recap the key financial and non-financial highlights of the Bank for the year 2020.

R.M.D.K. RATHNAYAKE
ACTING GENERAL MANAGER/CEO

2020 was a year of unparalleled difficulties not only for the Bank but for Sri Lanka and the whole world due to the onset of the COVID-19 pandemic. However, amidst all the doom and gloom of the year, I am proud to note that the Pradeshiya Sanwardana Bank was able to sustain its activities at a reasonably high level thereby giving hope to all our customers and giving the country's economy a timely boost.

Sri Lanka entered the year 2020 after navigating a turbulent few months triggered by the horrendous Easter Sunday attacks of April 2019. The Sri Lankan economy was gradually emerging from the setbacks caused by the attacks until it was hit with a far greater challenge in the form of the pandemic that had sent economies of the world into a tailspin at unprecedented levels.

In the face of such adversity, our Bank embraced the added responsibility of being a State Bank that serves as a financial pillar of the communities we serve by taking a leading role in the granting of loan concessions and implementing loan moratoriums under the direction of the Central Bank of Sri Lanka. The Bank implemented the new credit schemes introduced by the Government whilst continuing to make tax payments on time. To ensure that the benefits of these credit schemes were properly communicated to the general public, we carried out various awareness programs across the island.

FINANCIAL HIGHLIGHTS OF THE YEAR

Despite the challenging external environment, the Bank has recorded a post tax profit of LKR 404 Mn. for the year 2020 while registering a 11% YOY growth in the asset base from LKR 200 Bn. last year to LKR 221 Bn. in the year under review. The loan portfolio has registered a 15% YOY growth to LKR 167 Bn. along with a 15% YOY increase in the deposit portfolio to LKR 173 Bn. Net interest income of the Bank dipped 13% to LKR 10.9 Bn. in 2020 from LKR 12.5 Bn. last year while operating profit has also shown a similar trend of dropping to LKR 2.06 Bn. from the LKR 2.96 Bn. achieved last year. The key factor for such downward trend was the declining of interest income by about LKR 3 Bn. Driven by a second consecutive year of lower economic growth in the country, the NPA portfolio increased by 22% from LKR 13.7 Bn. recorded in 2019 to LKR 16.7 Bn. in the year under review while the NPA ratio rose to 10.11% from 9.63% last year.

General Manager's/ Chief Executive Officer's review

OPERATIONAL HIGHLIGHTS OF THE YEAR

The Bank introduced a special loan product named “Punarjeewana” with the aim of bringing relief to customers whose businesses have suffered losses due to the pandemic. Overall, the Bank successfully provided financial concessions for more than 58,000 customers under this programme in addition to the over 350,000 customers that were provided the loan moratorium facility put forward by the Government. The Bank also introduced the “Ulpatha” Loan Scheme with the objective of encouraging customers to take advantage of their home gardens to cultivate crops. Overall, the Bank successfully granted over large amount of Ulpatha loans thereby helping to ease the negative impact of the pandemic for thousands of Sri Lankans. Meanwhile, Leasing as a product showed gradual expansion during the year in outstation areas although it was not aggressively marketed due to the pandemic situation. The Bank also tied up with the Sri Lanka Inventors Commission to create a programme for providing financial assistance to inventors. Accordingly, several discussions were carried out with the relevant authorities and a number of loans were granted under relevant refinance schemes. The groundwork was also laid during the year for the future introduction of Debit Cards and Quick Response (QR) Code based transactions.

In order to accelerate our digital presence across the country, the Bank successfully carried out a test run of Oracle Analytics Cloud, deployed on top of Oracle Autonomous Data Warehouse. This helps the Bank to analyse ATM (Automated Teller Machines) transactions, downtime, and cash management. The Bank also deployed Oracle Cloud Infrastructure to provide a reliable, scalable, and highly secure platform to support our customised Digital Assistant software, helping us meet the rapidly increasing volumes of queries from our customers. However, full deployment was not carried out during the year due to a number of technical hurdles encountered. Furthermore, the foundation was laid in terms of selecting a technology partner for the introduction of a Loan Origination System (LOS) and Collection Management System (CMS) in the new financial year.

FUTURE OUTLOOK

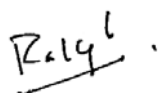
The economic future of Sri Lanka and the world will greatly depend on how the COVID-19 pandemic is controlled within our borders and the world. The

Bank's fortunes will undoubtedly be tied to the fast-evolving economic situation of the country. Given such a challenge is hard, the Bank has no viable alternative than to maintain a positive attitude and continue to perform to the best of our ability under the highly volatile external environment. It is imperative that we identify and implement new strategies that will give us the best chance of overcoming these economic challenges. The key goal for the year 2021 is to maintain a sustainable profit after tax while managing the Non-Performing Loans at a bare minimum. Progressive steps, such as opening new branches and significant advancements in ICT infrastructure, are also goals the Bank will aim to achieve during the new financial year. Additionally, while the present regulatory framework is conducive for operations of the Bank, we expect a new Banking Act to be introduced during 2021 under which the regulatory framework may vary.

APPRECIATIONS

I would like to express my sincere gratitude to the healthcare professionals, the armed forces and all other individuals who have risked not only their lives but also the lives of their families in their heroic attempts to save Sri Lanka from the pandemic. I would like to thank the Chairman and members of the Board of Directors for their wise counsel given during this troubled year. I am grateful to the officials of the Central Bank of Sri Lanka, State Ministry of Samurdi, Household Economy, Micro Finance, Self Development & Business Development, Ministry of Finance and other government institutions for their cooperation and support extended to the Bank.

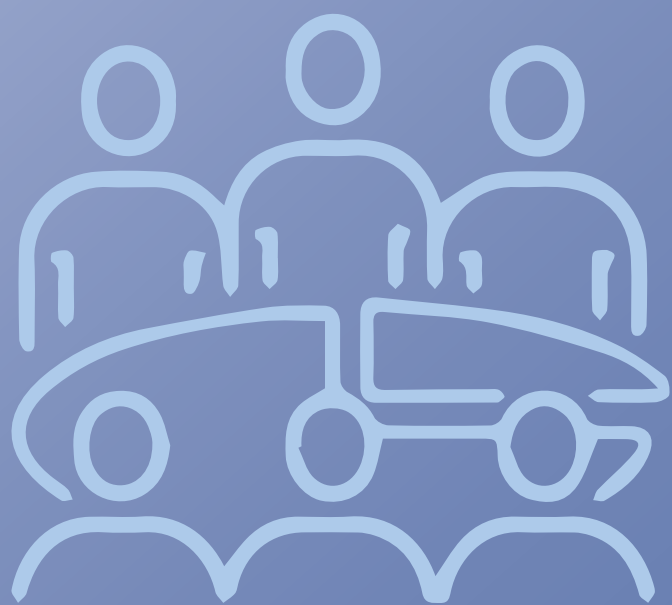
My gratitude goes out to all our loyal customers for continuing to place their faith in us. We are proud that we were able to stand by your side during these dark times. I also wish to convey my appreciation to the entire staff of the Bank for going the extra mile to help our customers while demonstrating hard work and commitment towards the achievement of the Bank's goals. Success will surely come our way sooner rather than later if we continue to look ahead with hope and work hard as we have done during the past 12 months.



R.M.D.K. Rathnayake

Acting General Manager/CEO

**Creating Futures and
Reaching New Heights**



Stewardship

Board of Directors



Standing Left to Right

Mr. Mahinda Saliya, Mr. W. M. Karunaratne, Mr. M. S. D. Ranasiri, Mr. K. E. D. Sumanasiri (till 26th August 2021)



Standing Left to Right

Mr. K. Raveendran, Mr. B. M. Premanath, Professor H. M. W. Ariyaratna Herath, Mr. Lalith Abey Siriwardana,
Dr. Nirmal De Silva

Board of Directors

MR. MAHINDA SALIYA

Chairman

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

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

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

MR. W. M. KARUNARATNE

Independent/Non-Executive Director

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

He has published two books on Banking with the poor (Group lending) and Rural Savings Mobilisation, 6 books on Poverty lending, SME financing, Lift irrigation, Home gardening, Dairy development, Financial literacy as well as a book on Warehouse Receipts Financing.

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

MR. M. S. D. RANASIRI

Independent/Non-Executive Director

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

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

MR K. E. D. SUMANASIRI

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

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

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

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

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

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

MR. K. RAVEENDRAN

Director/Non- Independent Non- Executive

Date of Appointment

14.10.2020

Skills and Experience

Mr. Raveendran is currently serving as the Senior Deputy General Manager of National Savings Bank overlooking the Branch Operations, Finance and Planning, Superannuation and Research & Development functions. He counts for over 23-year post qualifying experience in the Banking and Finance sector with more than 18 years at National Savings Bank. Prior to assuming duties as the Senior Deputy General Manager responsible with above functions, he has served in the capacity of Assistant General Manager and Deputy General Manager in the fields of Finance, Audit and Research & Development. He has also overseen the risk management function of the Bank. Mr. Raveendran has served in People's Merchant Bank as a Financial Analyst in the Corporate Finance Division and as a Research Analyst at CDIC Sasoon Cumberbatch Stockbrokers prior to joining National Savings Bank.

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

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

Other Current Appointments

Member of the governing council of Association of Professional Bankers of Sri Lanka.

Previous Key Appointments

He has served as a member of the Board of Directors at the Institute of Bankers of Sri Lanka (IBSL) as an Alternative Director.

MR. B. M. PREMANATH

Non-Independent/Non-Executive Director (People's Bank Representative)

Mr. Premanath assigned duties at People's Bank in 1987 as a Management Trainee having obtained a Second Class Upper (Hons.) Degree in Bachelor of Commerce from the University of Colombo and AIB Intermediate of the Institute of Bankers of Sri Lanka.

He held several positions in the Branch network as the Branch Manager, Assistant Regional Manager, Regional Manager, Assistant General Manager of Central Zone, DGM (Banking Support Service) Presently he is holding the position of Deputy General Manager (Channel Management).

While serving as the Regional Manager of Polonnaruwa, he gained a wide knowledge on credit as well as recoveries. He was able to promote agricultural loans as well as pledge loans of the Bank, to bring up the morale of people in the Northern Central Province of Sri Lanka who were severely affected by the 30 year civil war.

Board of Directors

As the Assistant General Manager (Central Zone), he covered Kandy, Matale and Nuwara Eliya Regions, and was able to introduce extensive range of Entrepreneurs as well as opening of School Banking Projects to the Bank. During this period he had the opportunity of serving closely with the authority of Temple of the Sacred Tooth Relic fulfilling Bank's Corporate Social Responsibility.

He has been appointed as the Deputy General Manager (Banking Support Services) since 2011 Up to 2020 heading six units including Bank's Procurements and Engineering Services too. All the procurement and supporting physical evidence were provided under his guidance for the project on implementing 200 People's Bank Self Banking Units (SBU) throughout the island.

PROFESSOR H. M. W. ARIYARATHNA HERATH Independent/Non-Executive Director

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

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

Prof. H.M.W. Ariyaratna Herath has served as a consultant and prepared reports for many national and international organisations such as Pathfinder Foundation Colombo; Plan International Sri Lanka;

IFAD and Ministry of Posts, Telecommunication and Udarata Development; North Central Provincial Council; Road Development Authority, Sri Lanka; UNDP, State Ministry of Skill Development, Vocational Education, Research & Innovation, Colombo, and Central Provincial Council.

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

MR. LALITH ABEYSIRIWARDANA Independent/Non-Executive Director

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

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

DR. NIRMAL DE SILVA

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

Dr. De Silva is currently serving as the Co-Founder / CEO of Paramount Realty. He is also the Founder of TYNA Consulting which is a Boutique Consultancy focused on Strategy, Leadership, Impact Investment, Strategic Power Play & Transformational Interventions (particularly for SME's) & Social Enterprises. In addition Dr. De Silva serves on the boards of a number of

companies in diverse industries such as agriculture, food & beverage, technology, handicrafts, education, learning & development, facilities management, portfolio investment, professional services, digital entertainment, consumer goods & lifestyle services.

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

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

Dr. De Silva possesses the following Qualifications

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

Corporate Management Team



MRS. R M D K RATHNAYAKE
ACTG. GENERAL MANAGER/
CEO

Mrs. Damitha Rathnayake is a well-known personality in the financial sector with an experience expanding well over a decade as the Additional Director General of Department of Treasury Operations, Department of the Ministry of Finance, thus far. She has served as a Director of People's Bank and Acting General Manager of National Savings Bank. Presently holds a directorate at the Sir Lanka Petroleum Corporation.

Graduated from the University of Sri Jayewardenepura, with a Bachelor's Degree in Business Administration, She has obtained a Master's Degree in Financial Economics from the University of Colombo and in Economic Policy from the Australian National University. Mrs. Rathnayake is a past pupil of Maliyadeva Girls College, Kurunegala.

MR. V JAYASINGHE
CHIEF INFORMATION
OFFICER

Mr Jayasinghe, an IT professional with more than 21 years of experience, joined Regional Development Bank in June 2011. He holds a B.Sc. Engineering Degree from the University of Moratuwa. He also has a Master of Engineering Degree from the Asian Institute of Technology in Thailand and Master of Business Administration Degree from the University of Hawaii, USA. After graduation, he started his career as a Systems Engineer at IBM World Trade Corporation. He counts more than sixteen years of work experience in Management positions of financial services and banking industry. A Certified Information Technology Professional (CITP) of the British Computer Society and a Certified Project Management Professional (PMP) of the Project Management Institute of USA, Mr Jayasinghe is a Chartered Engineer in Information and Communication Technology.

MR. P S EDIRISURIYA
CHIEF FINANCIAL OFFICER

Mr Edirisuriya graduated from the University of Sri Jayewardenepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr Edirisuriya counts over 30 years of experience in the fields of Auditing, Accounting, Taxation, Management Consultancy and Banking and Finance at leading institutions including Ernst & Young - Colombo, National Development Bank and Seylan Bank. He joined RDB in January 2017. Prior to his appointment as Chief Financial Officer at RDB, he has held the positions of Chief Financial Officer, Compliance Officer and Acting General Manager/CEO at Lankaputhra Development Bank.

MR. A H M M B JAYASINGHE
DEPUTY GENERAL MANAGER
- CREDIT

Mr Jayasinghe graduated from the University of Sri Jayewardenepura Sri Lanka with a B.Sc. Business Administration Special Degree, in 1986. He holds Postgraduate Executive Diploma in Bank Management from Institute of Bankers of Sri Lanka, Postgraduate Diploma in Management from University of Wayamba, Postgraduate Diploma in Regional Development from NIBM Sri Lanka. After the graduation he joined the Regional Development Bank in 1987 and served at the levels of Branch Manager, Zonal Manager, District Manager, Chief Manager, Assistant General Manager and Regional General Manager. Mr A H M M B Jayasinghe has over 32 years of experience in Banking Industry.



MR. C L PIHILLANDA
DEPUTY GENERAL MANAGER
- OPERATIONS AND
BUSINESS SUPPORT

Mr Pihillanda has successfully completed the Degree in Bachelor of Commerce from University of Kelaniya. He holds Postgraduate Diploma in Management from University of Peradeniya. Also passed Intermediate Examination from Institute of Bankers of Sri Lanka. He joined the Bank (previously Mahanuwara Regional Rural Development Bank/RRDB) as a Manager. During his career of banking he has gained wide range of experience in management level as a Branch Manager, Chief Manager, and Assistant General Manager and also as a Regional General Manager in Sabaragamuwa and Southern Provinces. He has over 32 years of experience in Banking Industry.

MR. D M T S KUMARA
HEAD OF SPECIAL
PROJECTS AND POLICY
IMPLEMENTATION

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

MR. D K S SERASINGHE
CHIEF HUMAN RESOURCES
OFFICER

Mr Krishantha Sanjeewa Serasinghe, has more than 20 years' experience in the field of HR since 1999, joined Regional Development Bank in January 2021. He holds a B.Sc. Special Degree for Human Resources Management from the University of Sri Jayewardenepura and Master of Science for Management degree from same University. He has successfully completed the fellowship Programme on Human Resources Management through Total Quality Management in Tokyo, Japan.

Mr Krishantha started his career in corporate and middle management positions in public and private sector organisations -In 2014/2015 he has worked as Deputy General Manager- HRD of National Savings Bank.

MR. A H M G ABEYRATHNA
DEPUTY GENERAL MANAGER
- RECOVERY

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

In 1987, He has joined the Regional Development Bank and served at the levels of Branch Manager, Chief Manager, Assistant General Manager and Regional General Manager at North Central Province.

Regional General Managers



Actg. Regional General
Manager - North
Western Province

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

Mrs. B R D Pushpakumari



Actg. Regional General
Manager - Southern
Province

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

Mr. K Ariyathilaka



Senior Assistant General
Manager - Credit
Administration

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

Mr. G S De Silva



Regional General
Manager -
Sabaragamuwa Province

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

Mrs. C S Weragoda



Regional General
Manager - Central
Province

*BA Degree - University
of Peradeniya, Certificate
of Banking and Finance
- Institute of Bankers of
Sri Lanka*

Mr. R M R Randeniya



Regional General
Manager - North Central
Province

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

Mr. K P Dahanayake



**Mr. W M D S
Wickramasinghe**

Regional General
Manager - Uva Province

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



Mr. D M S Bandara

Regional General
Manager - Central
Province (Till
20.12.2020)/ Retired

*B.Com (Special) Degree,
University of
Sri Jayewardenepura*



Mr. B G W A Kumara

Regional General
Manager (Covering up) -
Eastern Province

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



Mr. L B Upali

Regional General
Manager- Central
Province (Till 04.03.2021)

*B.Com (Special) Degree -
University of Kelaniya,
Intermediate
Examination - The
Institute of Chartered
Accountants of Sri Lanka*

Assistant General Managers



Assistant General Manager
- Marketing, Research and
Product Development

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

Mr. D S P C Handunhewa



Assistant General Manager
- Treasury (till 24th August 2021)

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

Mr. W V E G Warakagoda



Assistant General Manager
- Central Province

*BA (Special) Degree -
University of Colombo*

Mr. P S T Ranathunga



Assistant General Manager
- North Central Province

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

Mr. K C D Dharmapriya



Assistant General Manager
- Administration

*B.Com Degree University
of Sri Jayawardenapura
Associate Membership of
the Institute of Bankers of
Sri Lanka
Postgraduate Diploma in
Business Management
- University of Wayaba,
MBA University of Wayaba
Certificate Course in Micro
Finance*

Mr. G M B C De Silva



Assistant General Manager
- Recovery

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

Mr. P M S Wickramaratna



Actg. Regional General
Manager - Western
Province

*Associate Membership of
Institute of Bankers of
Sri Lanka*

Mr. M M S Ananda



Assistant General Manager
- Sabaragamuwa Province

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

Mr. M A Gnanarathne



Mr. K B Wijerathna

Assistant General Manager
- Finance
*B.Sc. Business Management
(Special) Degree - University
of Rajarata*
*Intermediate Examination
- The Institute of Chartered
Accountants of Sri Lanka*
*CBF - Institute of Bankers of
Sri Lanka*



Mr. W M S Wijethunga

Assistant General Manager
- Information Technology
*B.Sc. in Applied Science
Degree - University of Sri
Jayewardenepura*
*M.Sc. in IT - University of
Colombo*
*MBA Specialised in IT -
Sikkini, Manipal University*
*PGEXDip in Bank
Management - Institute of
Bankers of Sri Lanka*



Mr. W P M K Dasantha

Assistant General Manager
- Building and Maintenance
*B.Sc. (Eng.) - Hons. -
University of Moratuwa*
*PGDip. In Technology -
Open University of Sri Lanka*
*Chartered Engineer - MIE
(SL)*



**Major General Jagath
Pakshaweera**

Chief Security Officer
RSP, VSV, USP (Rtd)



Mrs. R M T Rajapaksha

Board Secretary
Attorney at Law
LLB - University of Colombo



Mrs. W V D P Kumudini

Assistant General
Manager - HR Service &
Development
*B.Sc. Public Administration
(Special) Degree - University
of Sri Jayewardenepura*



Mr. C L C Muthubanda

Assistant General Manager
- Internal Audit
*B.Sc. Business
Administration (Special)
Degree - University of Sri
Jayewardenepura*
*AIB- Institute of Bankers of
Sri Lanka*



Mrs. W M I K Abeyrathne

Assistant General Manager
- Administration
*B.Sc. (Physical Science)
Degree - University of
Peradeniya*

Assistant General Managers



Assistant General Manager
- Southern Province
*B.Sc (State Mgt.& Valuation)
Degree - University of Sri
Jayewardenepura
DBF - Institute of Bankers of
Sri Lanka*

Mr. P H Wijethilaka



Assistant General Manager
(Till 02.03.2021)
*B.com Degree - University
of Ruhuna*

**Mr. D M Gunasinghe -
Uva Province**



Assistant General Manager
*AIB- Institute of Bankers of
Sri Lanka
PGDip. - University of
Rajarata*

**Mr. H M P A G U Bandara
- Uva Province**



Assistant General Manager
- Western Province
*PGDip. - University of
Peradeniya
AIB- Institute of Bankers of
Sri Lanka
Associate Member of The
Institute of Marketing*

Mr. R M D S P Mahanama



Assistant General Manager
- Compliance
*BA (Special) Degree -
University of Peradeniya
CBF - Institute of Bankers
of Sri Lanka*

**Mrs. G B M T K
Wijerathna**



Assistant General Manager
- North Western Province
*B.com Degree - University
of Peradeniya*

Mr. A A J Amarasinghe



Mrs. H M N M Herath

Assistant General Manager -
Risk Management
*B.Sc. - Business Administration
(Special)*
*Degree - University of Sri
Jayewardenepura*
*Master of Business
Administration - University of
Wayamba.*
*Associate Member of The
Institute of Chartered
Accountants of Sri Lanka*
*AIB- Institute of Bankers of
Sri Lanka*



Dr. A S K B Rathnayake

Assistant General Manager
- Special Projects and
Policy Implementation
*B.Sc. - MIS - National
University of Ireland*
*Master of Business
Administration - Leeds
Metropolitan University.*
PHD - Aldersgate Collage



Mr. M A Thotadeniya

Assistant General Manager
- Credit
*BA (Special) Degree -
University of Peradeniya*



Mrs. P N Ekanayaka

Chief Legal Officer
Attorney at Law

**Creating Futures and
Reaching New Heights**



**Management Discussion
& Analysis**

Financial Review

As a financial institution, dedicated to Development Finance, Regional Development Bank (RDB) is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programs in the Island, playing a vital role as a financier. RDB has now emerged as a unique Financial Institution for Regional Development in the Island, serving the sectors of the economy, where most financial institutions are reluctant to actively participate in this sensitive and sophisticated arena. Our key asset is our customer base of over six million, spread throughout the country, including both North and East. Development of the country and its people are the focus of the Bank. So, the Bank is committed in empowering them and thereby developing the Nation through its island-wide branch network of 276 branches.

PROFITABILITY

Profit after Tax of the Bank has decreased by 19.88%, compared to the previous year. Bank played an

important role to support the business impacted by COVID 19 through moratoriums. Thus, in the year 2020, operating profit decreased to LKR 2,060 Mn, which is 30% less than the operating profit of LKR 2,960 Mn recorded in 2019. Return on Assets (ROA) before tax has recorded as 0.98% that stood at 1.57% in 2019. Also, the Bank reached total assets of LKR 221 Bn as at 31.12.2020 which recorded 11% growth over the previous year.

Profitability over the Budget

Item	Actual LKR'000	Budgeted LKR'000	Achievement
Gross Income	24,354,247	25,942,450	-6.12%
Operating Profits	2,060,859	2,549,653	-19.17%
Profit after Tax	404,036	504,298	-19.88%

RDB'S QUARTERLY FINANCIAL PERFORMANCE

RDB's quarterly financial performance has improved slightly during the year 2020.

	2020				2019 31-Dec LKR'000
	31-Dec LKR'000	30-Sep LKR'000	30-Jun LKR'000	31-Mar LKR'000	
Net operating Income	9,777,002	6,271,634	3,859,469	2,251,096	10,916,887
Profit before tax	2,060,859	534,132	146,376	440,253	2,960,258
Profit /(Loss) after tax	404,036	(317,446)	(337,571)	43,781	498,595
Loans and receivables	167,099,049	154,313,505	148,092,290	145,464,147	144,693,551
Customer deposits	172,882,632	166,517,669	157,999,733	152,883,643	149,599,829
Total assets	221,109,150	215,184,591	204,455,948	201,537,378	199,978,929
Shareholder's fund	15,114,316	14,647,876	14,623,930	15,005,999	14,965,322

INCOME

Total income of the Bank showed slight declined of 11% to LKR 24.3 Bn from LKR 27.5 Bn. The major contributor to this was interest income which declined by 12%.

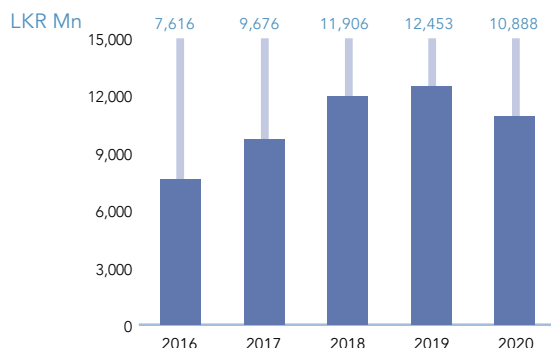
Composition of Total Income

Item	2020 LKR'000	2019 LKR'000
Interest income	23,182,459	26,357,071
Fee and commission income	1,143,098	1,134,422
Other operating income	28,690	16,328
Total income	24,354,247	27,507,821

NET INTEREST INCOME (NII)

Net interest income declined by 12.57% in the financial year of 2020, as it decreased from LKR 12,453 Mn to LKR 10,888 Mn.

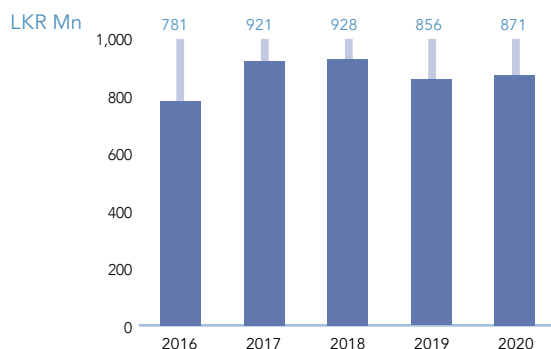
NET INTEREST INCOME (NII)



NET FEE AND COMMISSION INCOME

During the financial year 2020, Net Fee and Commission Income slightly increased by 1.76%. It grew to LKR 871 Mn with comparing to the results of LKR 856 Mn in financial year of 2019.

NET FEE & COMMISSION INCOME



TAXATION

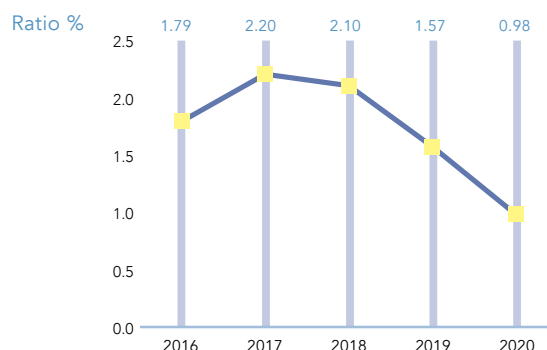
Item	2020 LKR'000	2019 LKR'000	Change %
VAT on Financial Services	1,047,411	1,012,949	3.40%
Nation Building Tax	-	123,626	100.00%
Income Tax	609,412	723,566	-15.78%
Debt Repayment Levy	-	601,523	100.00%
Total Tax Expense	1,656,823	2,461,663	-32.69%

During the financial year 2020, the Bank has incurred Value Added Tax on financial, amounting to LKR 1,047 Mn and Income Tax amounting to LKR 609 Mn. A total of LKR 1,656 Mn has been incurred the year as taxes.

RETURN ON ASSETS (ROA)

The Bank has recorded ROA (operating profits) of 0.98% for the financial year 2020 despite of 1.57% recorded for the financial year 2019.

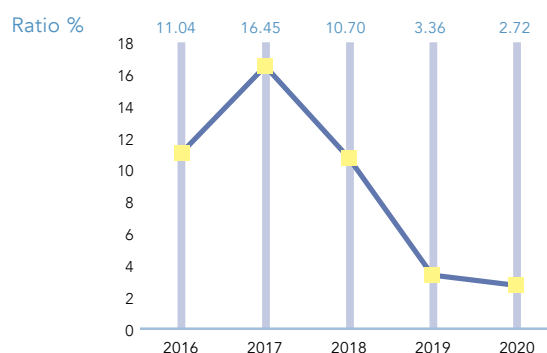
RETURN ON ASSETS (ROA)



RETURN ON EQUITY (ROE)

Slight decline of the profit after tax by LKR 94 Mn in financial year 2020, has resulted slight de-escalation in ROE from 3.36% to 2.72% compared to the previous year.

RETURN ON EQUITY (ROE)



Financial Review

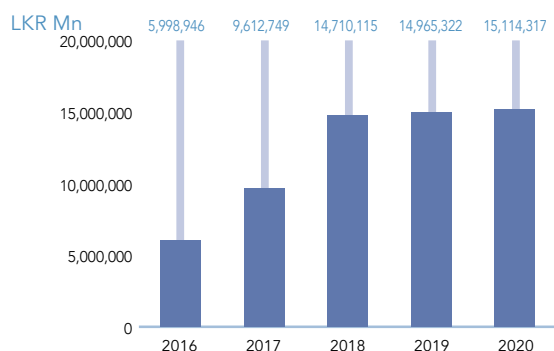
TOTAL ASSETS

The Bank recorded a growth of 11% in total assets as at the end of the financial year 2020, over the corresponding year. Accordingly, the total assets base crossed the LKR 200 Bn mark during the financial year and reached to LKR 221 Bn at the end of financial year.

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity of the Bank arrived in LKR 15,114 Mn in the year 2020 against LKR 14,965 Mn recorded in the year 2019.

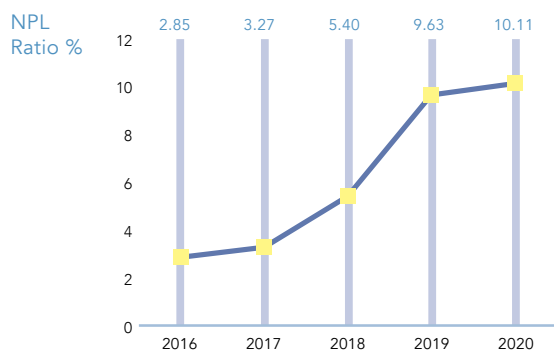
SHAREHOLDER'S EQUITY



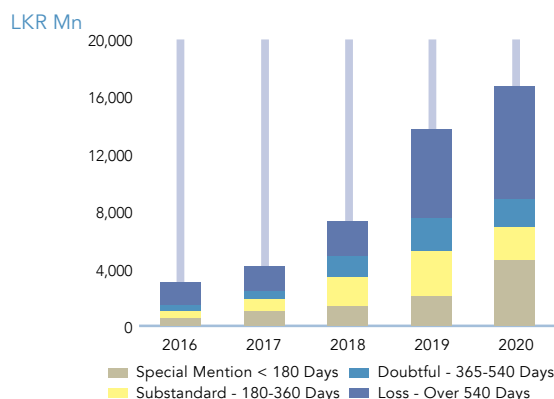
ASSETS QUALITY

Non-Performing Loan ratio (NPL) of the Bank slightly increased up to 10.11% as of 31 December 2020 which was at 9.63% in the previous year end.

NPL RATIO



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



LIQUIDITY

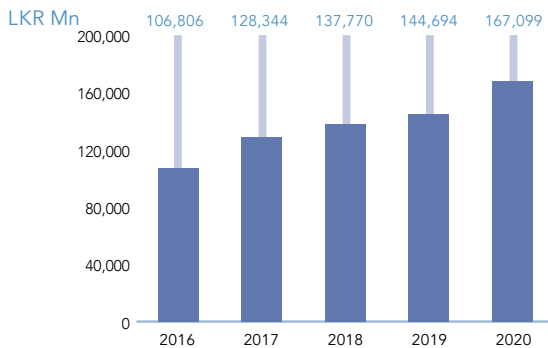
Item	2020	2019
Statutory Liquid Assets Ratio (SLAR)	29.30%	32.38%

The Bank has consistently maintained its liquidity levels well above the regulatory requirements despite of tight situation of the country during the year 2020.

Customer and Relationship Review

LOANS & ADVANCES GROWTH

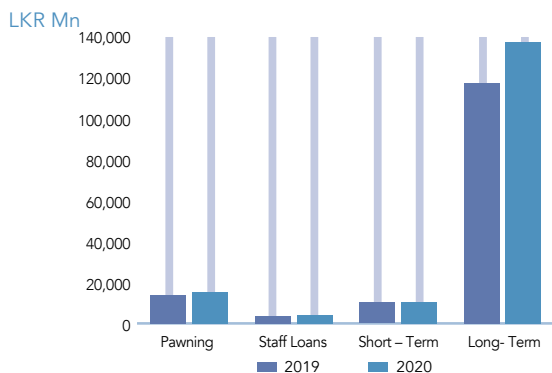
LOAN & ADVANCES GROWTH



LOANS & ADVANCES PORTFOLIO ANALYSIS - BY PRODUCT

Category	2020 LKR. Mn	2019 LKR. Mn
Pawning	15,432	13,747
Staff Loans	4,123	3,561
Short Term	10,307	10,201
Long – Term	137,238	117,185
Total	167,099	144,694

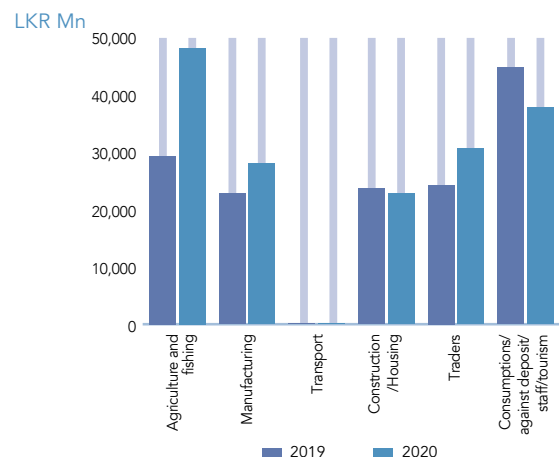
LOANS & ADVANCES PORTFOLIO ANALYSIS - BY PRODUCT



LOANS & ADVANCES PORTFOLIO ANALYSIS - BY INDUSTRY

Category	2020 LKR. Mn	2019 LKR. Mn
Agriculture and fishing	48,065	29,289
Manufacturing	27,928	22,724
Transport	133	165
Construction / Housing	22,716	23,618
Traders	30,585	24,261
Consumptions/Against Deposit/Staff/Tourism	37,671	44,637
Total	167,099	144,694

LOANS & ADVANCES PORTFOLIO ANALYSIS - BY INDUSTRY



RECOVERIES

During the year 2020, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio which was around 9.63% of the total portfolio at the end of 2019. As a result of the special efforts made and managing the stress diligently that arisen due to Covid 19 outbreak experienced by many of our customers, the bank managed to maintain the NPL ratio at 10.11% as at 31 December 2020 whilst achieving the slight growing of the credit portfolio.

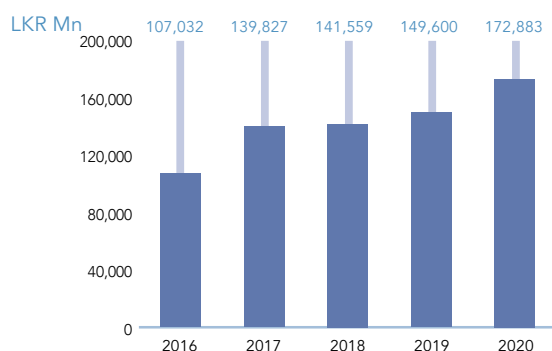
Customer and Relationship Review

Non Performing Category	2020 LKR. Mn	2019 LKR. Mn
Special Mention	4,581	2,051
Substandard	2,300	3,185
Doubtful	1,905	2,228
Loss	7,871	6,247
Total Non-Performing	16,658	13,711
NPL Ratio (%)	10.11	9.63

DEPOSIT GROWTH

Deposit Base of the Bank increased to LKR 173 Bn that represents a 15.56% growth over the previous year. The major contributor to this was savings deposits which grew by 17% whilst fixed deposits which grew by 14%.

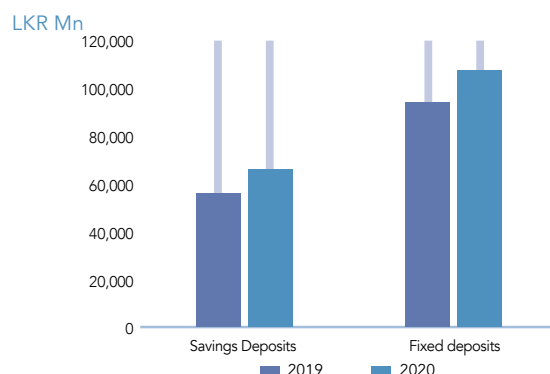
DEPOSIT GROWTH



DEPOSIT MIX

Category	2020 LKR. Mn	2019 LKR. Mn
Savings deposits	65,669	55,951
Fixed deposits	107,213	93,649
Total	172,883	149,600

DEPOSIT PORTFOLIO ANALYSIS - BY PRODUCT



CREDIT & OPERATIONS

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

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

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

During the year under review, the Bank was in a position to further expand the novel instrument for lending in the name of "Warehouse Receipt financing". This was the first time in Sri Lanka, such an innovative instrument was used for financing by a bank to help farmer communities. This instrument will facilitate farmers to obtain temporary funds by pledging stocks during harvesting periods, without selling their produce at low market prices. The Bank has already involved in the management of 6 warehousing projects with average capacity of 5000 tons at Upuldeniya in the Anuradapura District, Buttala in the Monaragala District, at Murunkan in the Mannar District and those newly commenced in the year 2018 at Polonnaruwa, Embilipitiya and Kilinochchi on behalf of the Government, constructed with the support of the World Bank. The farmers are facilitated to store their harvests in these warehouses without selling until the price levels stabilised.

In the meantime, the farmers can get short-term loans on the warehouse receipts to meet urgent cash needs, until disposal of the harvest, once prices have come up to a reasonable level. Further, the Bank involved in conducting several awareness programs to farmers and related parties by qualified consultants deployed by Ministry of Finance in 2020.

The Bank commenced Finance Leasing operations in 2020 and accommodated 593 facilities amounting to LKR 953.3 Mn by the end of 2020.

The Bank continued to generate fee income by channeling insurance activities relating to the loans granted by the Bank during 2020.

For this purpose, the Bank obtained the services of fifteen insurance companies to obtain insurance policies such as Agriculture insurance, Livestock insurance, Vehicle loan insurances, Housing loan insurances and further extended the service to Finance Leasing operations commenced 2020. The fee income so earned during 2020, amounted LKR 24 Mn. Based on this experience, the Bank has further strengthened the Banc Assurance Unit in order to formalise and expand the insurance activities.

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

In view of the volatile macro-economic environment, bank did not involve in lending aggressively during the year 2020. However, the bank played a major role during the year in lending to needy sectors of the economy with lending products with concessionary interest rates whilst being in line with the Government vision.

Information Technology Review

IT ACHIEVEMENTS IN YEAR 2020

Year 2020 was another year for the Bank in making system enhancement in order to improve customer services through technological implementations. During the year 2020, due to COVID-19 pandemic lockdown situation in the Country and the budget constraints, IT Department had an opportunity to implement only the most critical and essential IT Systems.

By the end of 2020, Bank has issued more than 240,000 ATM Cards to its valuable Customers. During the year 2020, Bank introduced the EMV (Europay, MasterCard and Visa) Chip Base (JCB) ATM Cards to the RDB Customers by linking with Lanka Pay (National Clearing House) Common ATM Switch & Shared ATM Switch Systems.

RDB card center introduced the issue of instant ATM cards to the customers thus cutting down the waiting time for receiving ATM card.

IT Department managed to introduce new reports through Core-Banking System to identify the Pawning granted beyond specific amount (Ceiling), Regulatory report on for the Deposit Insurance Scheme and also introduced a new Reschedule and Restructure reports under the CBSL Directions.

During the year 2020, IT Department has successfully enhanced the Core-Banking System to support the Corporate Clients and also enhanced the System to block the Blacklisted NIC of the Customers.

In 2020, IT department has developed internally and deployed the stage I of the refinance flow management system to monitor refinance loan registration process.

Marketing Review

Products and Services



RDB KEKULU – MINOR SAVINGS ACCOUNT

RDB Kekulu account is exclusively designed for children under 14

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

RDB 4TEEN PLUS



RDB 14+ Account is introduced by RDB Bank to make the teenager community bend towards savings habit can be named as a special savings tool.

This account has been specially planned for teenagers

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



RDB LIYA SAVIYA – WOMEN SAVING ACCOUNT

This account was introduced targeting courageous women in Sri Lanka. In addition

to financial facilities Bank provides consultancy services for women who contribute to the country's economy through self-employment. The special characteristics in the account are higher rate of interest, bonus interest and advances on competitive interest rates etc. Also special seminars, skill development vocational training programmes and many more regional and national level workshops conduct every year for women entrepreneurs with parallel to International women's day. Furthermore, the bank was organising the Best Women Entrepreneur Competition Island wide and this account holders are entitled to enrol this competition.

Marketing Review

Products and Services



RDB LIYA SAVIYA PLUS – WOMEN INVESTMENT SAVING ACCOUNT

RDB Liya saviya plus Investment Account

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

FEATURES OF RDB LIYA SAVIYA PLUS INVESTMENT ACCOUNT.

- Women above 18 years of age are eligible to open accounts
- 5 year investment plan
- Highest Interest Rate offered
- Special gift Scheme to motivate savings



RDB VICTORY

RDB Victory Account is introduced by the Bank as a special savings account where a higher interest can be obtained while

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



RDB NEWLIFE PENSION PLAN

RDB NewLife Pension Plan was introduced in 2018 as a special savings account where a higher interest

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



RDB UTHTHAMA SENIOR CITIZEN'S SAVING ACCOUNT

Bank offers competitive interest rates in the market

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



RDB INVESTMENT ACCOUNT

This is the general investment account introduced by the Bank for the clients who receiving credit

facilities. The special features of the product contain an attractive interest rate for deposits and a special loan scheme customised for the target segment.



RDB JAYA NIDHANA DEPOSITS CERTIFICATE

This is a product of RDB which attract customers of all

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



RDB FIXED DEPOSITS

RDB fixed deposits are identified as a popular mode of investments among its individual and

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



RDB DORIN DORA – CONVENIENT DOOR STEP BANKING SERVICE

This is the flagship service of RDB as

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



RDB LEASING

"RDB Leasing" is for Micro Enterprises, Small and Medium Enterprises, Professionals, High net worth individuals,

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

Marketing Review

Products and Services



WESTERN UNION

Money transfers through the Western Union (WU) is another easier and speedy ways to transfer funds from foreign

destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas.



LANKA MONEY TRANSFER (LMT)

Money transfers through the Lanka Money Transfer (LMT) is another easier and speedy ways to

transfer funds from foreign destinations to our country through all branches of the RDB which are widely located in rural and semi-urban areas. All remittances are directly credited to beneficiaries' savings accounts.

ATMS AND CDMS



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

husbandry, this ATM card is expected to offer better convenience as well as security. At present Bank has installed more than 50 RDB ATMs island wide.

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

MOBILE BANKING UNIT

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



SRI LANKA INTERBANK PAYMENT SYSTEM (SLIPS)

SLIPS

RDB SLIPS is an interbank electronic funds transfer system that provides the opportunity to transfer funds in the local clearing network in Sri Lanka in a safe and

secure manner. SLIPS can be used to transfer funds to any participating bank in Sri Lanka

CEFTS

COMMON ELECTRONIC FUND TRANSFER SWITCH (CEFTS)

Common Electronic Fund Transfer Switch (CEFTS) is a real-time

fund transfer system allowing customers to perform domestic interbank fund transfers real-time at their convenience.



UTILITY PAYMENT

BILL

RDB facilitate to pay utility bills under one roof. Accordingly, customers can easily pay their electricity

bills, water bills, telecommunication bills, insurance payments and other bill payments through RDB branches & our Dorin Dora / Grameeya Naika (Mobile Services) as well.

WAREHOUSE FACILITIES

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

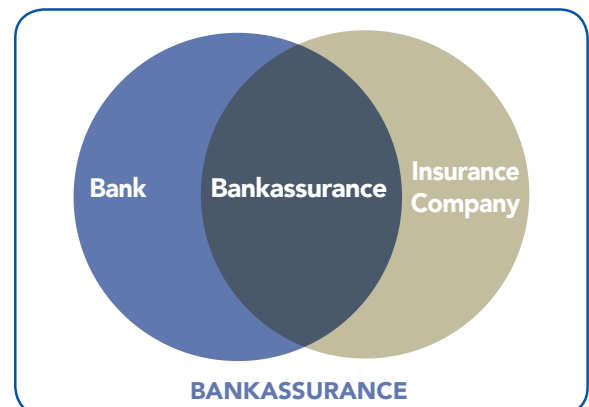


Also, Government of Sri Lanka has launched a Negotiable Warehouse Receipts system with World Bank assistance to help farmers gain access to loans from banks and avoids difficulties in the sale of agricultural commodities. Negotiable Warehouse Receipts allow transfer of ownership of any agriculture commodity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

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

BANKASSURANCE

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



Society and Environmental Review

Corporate Social responsibility – CSR

DONATION OF GIFTS TO PEDIATRIC PATIENTS RECEIVING TREATMENT AT THALASSEMIA AND CHILDREN'S WARDS AT BADULLA GENERAL HOSPITAL

RDB donated gifts to pediatric patients at Thalassemis and Children's wards at Badulla General Hospital on 1st October 2020 in parallel to World Children's Day



DONATIONS FOR THE INTERNATIONAL DAY FOR THE ERADICATION OF POVERTY

To commemorate the International Day for the Eradication of Poverty, RDB donated daily essentials to the rural community. Simultaneously, micro loans have been provided to micro entrepreneurs to enhance their living standards.



ULPATHA HOME GARDEN PROJECT

RDB launched Ulpatha Home Garden Project in July 2020 to make 12,000 home gardens around the country.



Employee Review

OVERVIEW

HR is one of main contributors in achieving business corporate plan of the Bank. Hence, implementation of mission critical HR strategies in every aspect such as Recruitment, Training & Development, Performance Appraisal, Succession Planning, Career Development, Salary and non-salary benefit management are very vital when achieving the business objectives. Though it's a support service, HR is a main pillar that contributes strategically.

Financial KPI with regard to HR for 2016 – 2020

	2016	2017	2018	2019	2020
Total Operating Profit (LKR Mn.)	2,130	3,307	3,606	2,960	2,060
Total Income (LKR Mn.)	15,744	22,016	26,071	27,508	24,354
Loan Portfolio (LKR Mn.)	106,806	130,325	137,770	144,694	167,099
Deposit Portfolio (LKR Mn.)	107,032	139,827	141,560	149,600	172,882
Total Headcount (FTE)	2,342	2,395	2,345	2,735	2,660
Revenue per FTE (LKR Mn.)	6.72	9.19	11.02	10.06	9.16
Profit per FTE (LKR Mn.)	0.91	1.38	1.43	1.08	0.77
Deposit Portfolio per FTE (LKR Mn.)	44.70	57.17	58.82	52.90	64.99
Loan portfolio per FTE (LKR Mn.)	45.60	53.72	57.78	54.70	62.82

(FTE = Full-Time-Employee)

MANPOWER STRENGTH

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

Manpower Type	Headcount	
	2019	2020
Permanent/ contract employees	2,735	2,660
Door to Door Field Assistants	449	445
Rural Leaders	200	180
Total	3,384	3,310

Headcount distribution by management level is given below.

Management Level	Headcount Distribution	
	2019	2020
Corporate Management	6	7
Senior Management	34	33
Executive Management	133	154
Executives	1,040	970
Clerical and Allied	1,366	1,351
Other Grades	156	145
Total	2,735	2,660

Employee Review

Bank provided equal employment opportunities for both male and female. The gender profile was continued to maintain in 2020.

Manpower Type	2019		2020	
	Headcount	%	Headcount	%
Male	1,546	56.53	1,489	55.98
Female	1,189	43.47	1,171	44.02
Total	2,735	100.00	2,660	100.00

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

Age Profile

Age Category	Headcount	%
Below 21 years	-	-
21 – 30 years	463	17.41
31 – 40 years	926	34.81
41 – 50 years	436	16.39
51 – 55 years	584	21.95
Above 55 years	251	9.44
Total	2,660	100.00

Experience Profile

Experience Category	Headcount	%
More than 30 years	266	10.00
20 – 29 years	814	30.60
10 – 19 years	567	21.32
5 – 9 years	556	20.90
Less than 5 years	457	17.18
Total	2,660	100.00

CAREER ADVANCEMENT

Bank provided continuous ongoing training to change attitude of staff and impart knowledge and hands on learning experience towards banking operations and better customer service. During the year 2020 46 programmes were conducted with 1467 participants. Total investment for training during the year was LKR 1.43 Mn.

HR BOARD SUB – COMMITTEES

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

1. First 03 committees – Dr. Nirmal De Silva
2. Next 03 committees – Mr. M. Mahinda Saliya - Chairman

The Board Secretary functioned as the Secretary to the committees. Six (06) Nomination Committee meetings and Six (06) Board Human Resources & Remuneration Committee meetings were held during the year 2020.

Special Events

Branch Relocation



KANDAKETIYA BRANCH

Kandaketiya Branch moves to more convenient location and ceremonially opened by Chairman Mr. Mahinda Saliya along with the GM/CEO Mr.T. Kuhan on 29th June 2020.



KULIYAPITIYA BRANCH

Kuliypitya Branch moves to more convenient location and ceremonially opened by Chairman Mr. Mahinda Saliya along with the GM/CEO Mr.T. Kuhan on 19th October 2020.



PILIYANDALA BRANCH

Piliyandala Branch moves to more convenient location and ceremonially opened by Regional General Manager - Western Province on 10th February 2020.

DEHIATTAKANDIYA BRANCH

Dehiattakandiya Branch moves to more convenient location and ceremonially opened by Regional General Manager – Eastern Province on 8th June 2020.

Special Events

Branch Relocation



SIGNED MOU WITH NATIONAL LOTTERIES BOARD & DEVELOPMENT LOTTERIES BOARD

RDB signed MOU with National Lotteries Board & Development Lotteries Board on 7th September 2020 to grant Working Capital Loans for Dealers and Sales Assistants / Agents who affected due to COVID 19.



SCHOOL SAVING CENTRES

The School Savings Centre at Handewalapitiya Vidyalaya, Hanguranketha has been opened on 2nd October 2020 to improve saving habits among school children.



INNEX '20 EXHIBITION AT KANDY CITY CENTRE

RDB participated Innex '20 Small & Medium Scale Industries & Tourism Trade fair Exhibition of Central Province which was conducted at KCC from 25th – 27th September. This fair was dedicated exclusively for re empowering SME sector entrepreneurs who effected prevailing COVID 19 pandemic.



PUNARJEEWANA LOAN PROGRAMME

RDB launched Punarjeevana Loan Program which is focused on enterprises who faced business breakdown due to COVID 19. Said loan programme provides relief to customers as a remedy for the problems such as collapse of the business, Working capital deficiencies, non availability of funds to shift any other business.



WORLD CHILDREN'S DAY CELEBRATIONS

To commemorate World Children's Day, RDB has launched a booklet of good habits with illustrations named "Yaha Gunadam Wela" to inculcate good habits among small generation.

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



RDB participated the "Children's Day Celebration Program" organised by FM Derana with the participation of the stars of the "Derana Little Star" and child actors of "Sidu" teledrama. Said program was held on 8th October 2020 at the channel premises.



Special Events



SPECIAL PROMOTIONAL CAMPAIGN AT NEW MANNING MARKET COMPLEX

RDB conducted special promotional campaign at New Manning Market Complex, Peliyagoda on 31st December 2020 to attract new customers and to enhance deposit base of the bank.



MOBILE BANKING SERVICE

RDB mobile banking unit performed as a disaster recovery mobile unit during the period of COVID 19 pandemic and provide banking facilities for isolated people.



BEST WOMEN ENTREPRENEUR PROGRAMME

RDB conducted "Best Women Entrepreneur" competition among the women entrepreneurs spread around the country. The competition was held in district, province and National Level and valuable gifts were offered for the winners to empower women entrepreneurs.

Risk Management

As a financial entity, Risk is inherent in our operational process. The Bank tolerates in between risk and return. Hence, in terms of going concern, we have established effective risk management measures and practices to balance the risk and reward for massive operational and financial result. Effective risk management process enables banks to take better decision to manage and mitigate its unexpected risk and to achieve sustainable growth by improving its strategic and operational objectives.

RISK MANAGEMENT FRAMEWORK

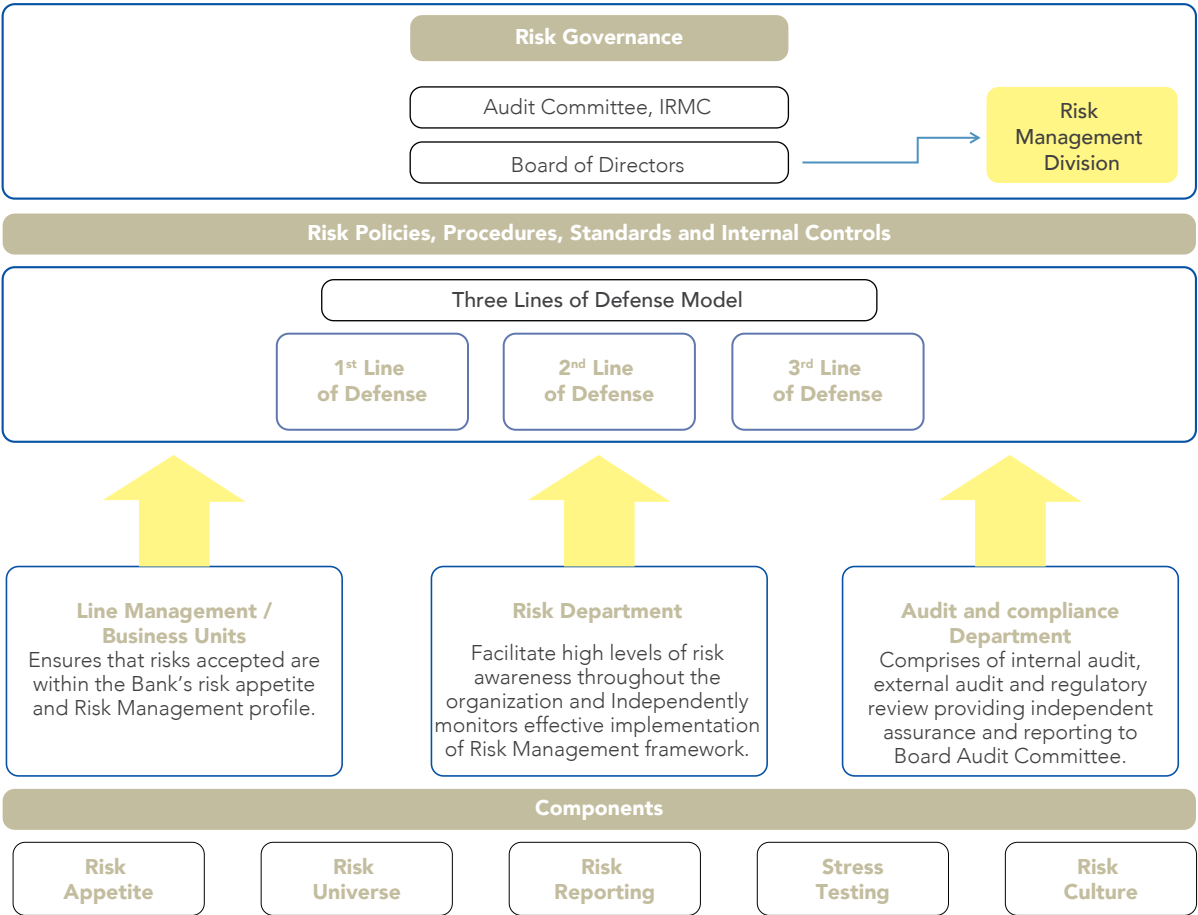
The Bank has developed an effective Risk Management Framework (RMF) based on the Three Lines of Defense model. RMF considered possible risks and uncertainties the Bank is exposed to and is underpinned by rigorous organisational structures, systems, processes, procedures, and practices. The Three Lines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

RMF guides the Bank in its day-to-day operations.

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

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

Responsibility of the bank risk management lies with all individuals who are engaged in the bank operations.



Risk Management

RISK GOVERNANCE

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

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

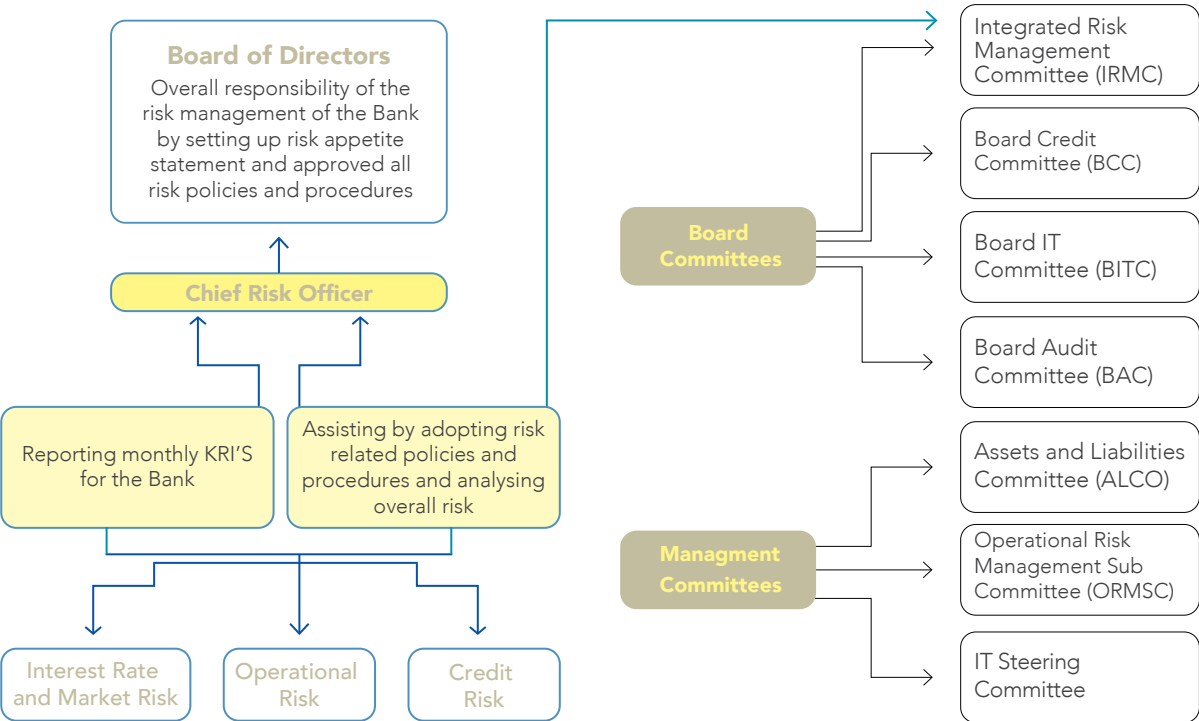
The Board Audit committee (BAC) examines the internal control and regulatory compliance of the Bank on behalf of the Board of RDB. The committee also accesses the performance, accuracy and independence of the internal audit of the Bank.

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

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

Risk Management Department (RMD) which is headed by the CRO has three separate functions of risk management namely credit risk, operation risk and market & interest rate risk.

RISK GOVERNANCE STRUCTURE



OVERVIEW ON KEY RISK FACTORS AND GOVERNANCE STRUCTURE OF RDB

CREDIT RISK

RDB being a development bank, credit is the major business line of the bank. The total credit exposure of RDB is 74% of its total assets. Extending credit is the major business line of the Bank and as a result, credit risk is the most significant type of risk that is being managed. Therefore, the Bank has placed a considerable weightage on credit risk management process.

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

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

DELEGATED APPROVING AUTHORITY

The Bank has specific delegated authority levels to approve credit facilities. Normally, credit proposals are analysed by experienced credit officers and handed over to the relevant approval authority level. However, high value credit proposals are approved by the Credit Committee and the Board of Directors.

At present, loan proposals which exceed authority level of the Deputy General Manager Credit are subject to an independent evaluation by the CRO. The Bank continued with the structured evaluating and approving process introduced in 2014 and it immensely contributed to the Bank's credit portfolio risk management.

CREDIT ADMINISTRATION UNIT

In view of increasing administration process of the credit portfolio, in March 2016 the Bank established the Credit Administration Unit which is headed by an Assistant General Manager under the Risk Management Division as an independent unit. The Credit Administration Unit was expanded and strengthened with additional experienced and qualified staff to smooth function of the credit administration process and to reduce the credit risk.

LOAN REVIEW MECHANISM (LRM)

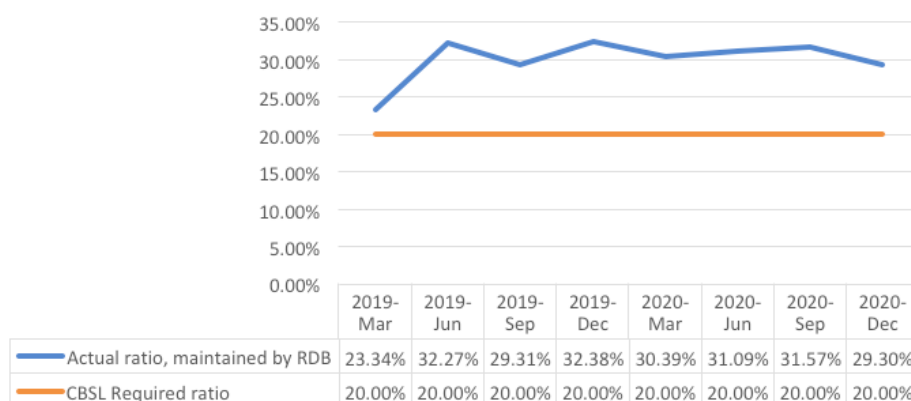
Since 2017, RDB has established a comprehensive LRM to maintain quality loan portfolio. Loan review Policy of RDB establish a common framework for Loan Review mechanism to improve qualitative and quantitative credit administration. The review should cover all performing loans above the threshold limit,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

RISK RATING

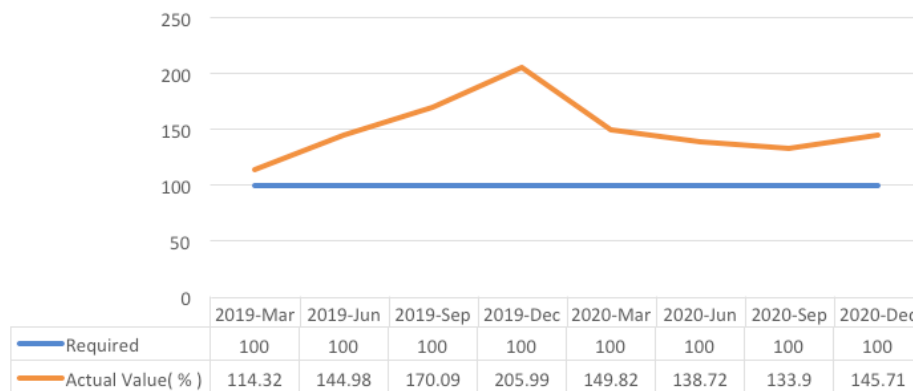
The Bank has introduced the customer rating based on bank specific format since August 2016. Customers are rated as AAA, AA, A and BBB. According to the directions given in the circular customer who has below BBB rating is not eligible for a credit facility from the Bank.

RISK BASED PRICING

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



Required Vs Actual Liquidity Coverage Ratio



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

All figures in LKR'000 Details	Balance as at 31/12/2020	Shocks		
		Minor	Moderate	Major
Magnitude of Shock		10%	15%	20%
Liquid Assets	48,300,447	48,300,447	48,300,447	48,300,447
Total Liabilities	164,850,077	164,850,077	164,850,077	164,850,077
Value fall on Total Liabilities		16,485,008	24,727,512	32,970,015
Revised Total Liabilities after shock		148,365,070	140,122,566	131,880,062
Revised Liquid Assets after shock		31,815,439	23,572,935	15,330,432
Liquid Asset Ratio	29.30%	21.44%	16.82%	11.62%

OPERATIONAL RISK

Operational risk is an expression of danger from unexpected direct or indirect losses, resulting from inadequate or failed internal processes, people and systems and external events, caused by credit or market. The Bank today has 276 branches covering entire country with more than 2,600 staff members and well standard technical solutions (CORE Banking system, ATM and CDM and Human Resource System) for supportive services. Hence the operational risk is the inherent risk in the operational process of the Bank

operational risk management of the bank, and it is periodically review. RDB has well established internal controls process to monitor and cover the operational risk event which are generated during the day-to-day operations of the Bank.

Since 2012 RMD has established an Operational Risk Subcommittee "under the supervision of Chief Risk Officer of the Bank and submit a periodic report on operational loss to the Board integrated risk Management (BIRMC) and to the Board on quarterly and monthly basis.

RDB has established a comprehensive risk operational risk management policy in 2013 and approved by the Board of Directors. This is main guidance for the Bank

Risk Management

The Bank has comprehensive Business Continuity Plan (BCP) and Disaster Recovery (DR) policy which mitigate the operational risk events in an unforeseen situation. These two policies are updated time to time through DR drilling BCP drilling. Since the year 2015 the Information Security Management System (ISMS) function is in operation under the supervision of Chief Risk Officer of the Bank to monitor and mitigate the operational risk on data and information of the bank and to enhance the quality of the information and the data which are available in the bank. Approved information security and acceptable usage policies are place as a internal control measures on information.

INTEREST RATE RISK

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

According to the Interest Rate Risk Management Policy approved by the Board, ALCO is responsible to determine the interest rates based on gap and duration analysis of the Bank. Based on this analysis, Risk Management Department will carry out risk assessment on the interest rate fluctuations. However, at present ALCO determines interest rates for both lending and deposits based on the market conditions and credit deposit ratio.

INFORMATION RISK AND CYBER RISKS

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

Up to the end of 2014, the Bank worked on four different IT platforms. Now RDB is on a centralised IT solution and provide digital banking options to their customer segments. Since 2015, RDB has facilitated ATM networks for the customers all over the country connected with the lanka pay network and its own ATM centers. Currently RDB has facilitated their customers through Customer Depository Machines

as well (CDM). Further, The Bank has operating with Human resources management system to manage their employee data base and payroll. The IT steering committee is the major governing structure of the Information and the information systems of the bank. The bank has established an IT steering committee in 2013 headed by CIO of the Bank which represents all technical people and CRO. The committee periodically discuss all IT related issues in the Bank and make recommendation and solutions to the Board of Director. Following risk Mitigation, Monitoring and Reporting techniques are used by the bank to maintain strong risk management in IT.

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

COMPLIANCE RISK MANAGEMENT

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

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

CAPITAL MANAGEMENT

The capital adequacy ratio (CAR) measures a bank's capital in relation to its risk-weighted assets. The capital to risk weighted assets ratio promotes financial stability and efficiency of the Bank. Hence the ratio (CAR) is one of the key financial indicators which show the soundness and the stability of a bank. This measures banks' ability to survive in an unexpected loss scenario during various economic activities carried

out by the Bank. Basle committee has implemented set of several measures of capital of the bank. Accordingly, BASLE III accord issued in December 2010 it was replaced Basel II accord and it has come into force and effect in Sri Lanka on 1 July 2017 based on the Central Bank direction 01 of 2016 on capital requirement under BASLE III for licensed commercial banks and licensed specialised bank. Time to time RDB has revised its capital augmentation plan to have a proactive capital management to comply with the regulatory

requirement. Up to the end of second quarter 2017 the bank has complied with Basel II accords and maintain minimum capital adequacy requirement of 10%, However with the introduction of Basel III from June 2017 RDB has to increase its capital to meet the capital adequacy a minimum ratio of 12.5%.

HIGHLIGHTS IN 2020 AND COMPARATIVE YEAR

	2019-Dec	2020-Mar	2020-Jun	2020-Sep	2020-Dec
Tier 1 Capital	10.90%	10.46%	10.82%	10.77%	10.34%
Required Tire 1	8.50%	8.50%	8.50%	8.50%	8.50%
Total Capital	16.27%	15.73%	15.86%	15.63%	14.94%
Required Total Capital	12.5.%	12.5.%	12.5.%	12.5.%	12.5.%

IMPACT COVID-19 OUTBREAK AND RISK MANAGEMENT

The COVID-19 outbreak has impacted in several aspect of our business not only in financial terms also operational terms it massively impacts our day-to-day business operations. The pandemic could cause considerable disruptions to key economic sectors such as services, trade, transportation, tourism, and manufacturing. Moreover, sectors such as trading and tourism are likely to be directly affected by the outbreak while other sectors such as consumption, manufacturing and construction could face an indirect impact due to higher unemployment, supply-chain disruptions, and weaker demand. Hence, we now expected slow economic growth than which we expected earlier.

The financial sector is the backbone of any economy. Hence any economic crisis/any economic downturn is immediately affected to the Banking operation of the country. In this circumstance, due to covid 19 outbreak as a medium scale development bank we also faced very difficult operational conditions, every and each industry in Sri Lanka has faced to huge damage due to the unexpected lockdown situation in and out of the country. Hence with this economic stress situation customer base of our bank has also faced financial difficulties.

CBSL took measures to provide debt moratoriums via financial institutions as relief measures for businesses and individuals during the various economic shocks that occurred in the country. To comply with these measures our bank also takes necessary action to give relief measures and the debt moratorium for our customer tails. These measures have impacted to financial performance of the Bank. The Bank has taken several strategic decisions to manage risk in financial aspect and to reduce the unexpected losses, further has taken immediate and vital operational decision to safe our staff and the customers.

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

**Creating Futures and
Reaching New Heights**



Corporate Governance

Auditor General's Report on Corporate Governance



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எனது இல.
My No.

} BAF/F/RDB/CG/2020

ඔබේ අංකය
உமது இல.
Your No.

}

දිනය
திகதி
Date

} 29 July 2021

The Chairman,
Pradeshiya Sanwardana Bank.

AUDITOR GENERAL'S REPORT OF FACTUAL FINDINGS OF PRADESHIYA SANWARDANA BANK ON THE COMPLIANCE REQUIREMENT OF THE CORPORATE GOVERNANCE DIRECTIVE ISSUED BY THE CENTRAL BANK OF SRI LANKA -31 DECEMBER 2020

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

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

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

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

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

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

W.P.C. Wickramaratne
Auditor General



Corporate Governance



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Annexure to the report on factual findings

3 (1)	The Responsibilities of the Board	Level of Compliance
3 (1) (i)	Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the bank.	
a)	The Board approval, the bank's strategic objectives and corporate values.	<p>Partially complied with;</p> <p>Board approved Corporate Plan which was prepared for 2016-2020 was in place. In addition Bank's Strategic objectives are embedded within the annual budget which is implemented annually. Those consisted with strategic objectives and corporate values of the Bank. However, the period of existing corporate plan had been expired by the end of year 2020.</p> <p>New Corporate Plan is being prepared and now is in its final stage. Also, year 2021 figures have been forecasted in accordance with actual figures of 2020 which are related to credit, operational, staff and capital expenditure.</p>
	Whether the Bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Strategic objectives and corporate values of the bank have been communicated to staff through awareness meetings at Head office level as well as Provincial level and way of various circulars issued periodically.
b)	The board approval of the overall business strategy of the bank.	<p>Partially Complied with;</p> <p>The board approved Corporate Plan (2016-2020) includes the overall business strategy of the Bank.</p>
	The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Overall risk policy and risk management procedures have been prepared and approved by the Board with the recommendation of the Board Integrated Risk Management Committee and is being reviewed periodically.
	The overall business strategy contains measurable goals, for at least the next three years.	However, measurable goals of the Corporate Plan is forecasted up to FY 2020. At present Corporate Plan for 2021-2023 is being prepared. Year 2021 has been forecasted on actual figures of 2020 which are credit, operational, HR related matters and capital expenditure.
c)	The appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	<p>Complied with;</p> <p>The Board approved Integrated Risk Management Policies and procedures include continuous and prudent assessment process. Further it is reviewed by the Board Integrated Risk Management Committee (BIRMC).</p>
d)	The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	<p>Complied with;</p> <p>A Board approved communication policy is in place, and it includes communication with all stakeholders, including depositors, creditors, shareholders and borrowers.</p> <p>However, communication policy to be reviewed as mentioned in the policy document.</p>

Corporate Governance



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3 (1)	The Responsibilities of the Board	Level of Compliance
e)	The Board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	<p><i>Complied with;</i></p> <p>All Key Management personnel especially with DGM-Operation are responsible for the establishing and updating of internal control system of the Bank.</p> <p>Also, Internal Audit Department reviews the adequacy and integrity of the internal control system and management information system of the Bank.</p> <p>Further, Internal audit reports are submitted to the Board Audit Committee (BAC) and major findings are submitted to the board.</p>
f)	The Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	<p><i>Complied with;</i></p> <p>The Board has identified and designated Key Management Personnel of the Bank.</p>
g)	The Board has defined the areas of authority and key responsibilities for the Board Directors themselves and for the key management personnel;	<p><i>Complied with;</i></p> <p>Board Charter defines the areas of authority and key responsibilities for the Board of Directors themselves.</p> <p>The areas of authority and key responsibilities of the Key Management Personnel have been documented in relevant Job Descriptions.</p>
h)	The Board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	<p><i>Complied with;</i></p> <p>The Board exercise appropriate oversight of the affairs of the Bank through Board and Board Subcommittees.</p> <p>Further, Key Management Personnel are called for the Board Meetings if any clarification is required.</p>
i)	<p>The Board has periodically assessed the effectiveness of the Board Directors' own governance practices, including:</p> <p>The selection, nomination and election of Directors and key management personnel.</p> <p>The management of conflicts of interests; and</p> <p>The determination of weaknesses and implementation of changes where necessary.</p>	<p><i>Complied with;</i></p> <p>The Board has assessed their effectiveness at the Board Meeting.</p>
j)	The Board has a succession plan for key management personnel.	<p><i>Partially Complied with;</i></p> <p>Board approved Succession Policy is in place and Succession Plan had been updated for the key management personnel during the year 2021. However, it needs to be revisited.</p>



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3 (1)	The Responsibilities of the Board	Level of Compliance
	k) The Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	<i>Complied with;</i> The Board conducts meetings regularly to discuss and review the progress of corporate objectives and invite key management personnel for further information and advice.
	l) The Board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	<i>Complied with;</i> The Board has taken measures and processes to understand the regulatory environment and maintain relationship with regulators.
	m) The Board has a process in place for hiring and oversight of external auditors.	<i>Not Applicable;</i> Under section 33 of the Pradeshiya Sanwardana Bank Act, Auditor General is the external auditor of the Bank.
3 (l) (ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO). The functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	<i>Partially Complied with;</i> The Chairman has been appointed in terms of the provisions of PSB Act by the Hon. Minister in charge of PSB. Board shall appoint a General Manager/CEO of the bank. However, Acting General Manager had been appointed by the Secretary of Ministry of Finance and noted by the Board to fill the vacant General Manager position arose due to un-avoidable reason. Also, Board is in the process of appointing a new General Manager as per PSB Act and accordingly Current Acting General Manager will be released soon after appointing new General Manager as above. The chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business. However, Chairman involves in the signing of agreements, bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018 which is in line with the section 3 of the PSB Act.
3 (l) (iii)	The Board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	<i>Complied with;</i> Generally, the Board meetings are held monthly. Also, special meetings are conducted additionally as and when necessary. 17 meetings have been held during the year 2020.
3 (l) (iv)	The board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	<i>Complied with;</i> Regular Board meetings are scheduled monthly. Directors are informed of next date of meeting date well in advance enabling them to submit matters and proposals.
3 (l) (v)	That the Board has given notice of at least 7 days for a regular board meeting to provide all Directors an opportunity to attend. And for all other board meetings, notice has been given.	<i>Complied with;</i> Notice of the regular Board meeting provided before 7 days of meeting. Other special meetings are held with reasonable notice.

Corporate Governance



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



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

Corporate Governance



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3 (2)	The Board's Composition	Level of Compliance
3 (2) (i)	Board comprises of not less than 7 and not more than 11 Directors.	<i>Complied with;</i> Board comprises of 09 Directors as at 31.12.2020.
3 (2) (ii)	(a) The total period of service of a Director other than a Director who holds the position of CEO, does not exceed nine years.	<i>Complied with;</i> None of the Directors have exceeded nine years as described in the direction.
	(b) In the event of any Director serving more than 9 years, check that the transitional provisions have been applied with.	<i>Not applicable;</i> Such a situation has not arisen.
3 (2) (iii)	The number of Executive Directors, including the CEO does not exceed one-third of the number of Directors of the board.	<i>Complied with;</i> There was no Executive Director in the Board as at 31.12.2020.
3 (2) (iv)	The Board has at least three Independent Non-Executive Directors or one third of the total number of Directors, whichever is higher. Check if Non-Executive Directors can be considered independent if he/she:	<i>Complied with;</i> There were six Independent/Non- Executive Directors in the Board as at 31.12.2020. According to the Pradeshiya Sanwardana Bank Act no.41 of 2008, Three Non-Independent Directors are being appointed from each of shareholder Banks and One Non-Independent Director being appointed for the General Treasury. However, Non-Independent Director who was appointed by the General Treasury did not represent Board meeting held on month of December as he had retired from service on 02/11/2020.
	a) Holds a direct and indirect shareholding of more than 1 per cent of the bank;	<i>Not Applicable</i>
	b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	<i>Not Applicable</i>
	c) has been employed by the bank during the two year period immediately preceding the appointment as Director.	<i>Not Applicable</i>
	d) has had a close relation, who is a Director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependent child)	<i>Not Applicable</i>
	e) represents a specific stakeholder of the bank	<i>Not Applicable</i>



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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

Corporate Governance



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (2)	The Board's Composition	Level of Compliance
3 (2) (xi)	<p>If a Director resigns or is removed from office, the board:</p> <p>(a) Announce the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the bank, if any; and</p> <p>(b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.</p>	<p><i>Complied with;</i></p> <p>Appointment and removal of Directors are done by the Hon. Minister in terms of the provisions of PSB Act.</p> <p>Resigning Director acknowledges his/ her resignation through a letter to the Bank and based on that letter the Bank informs to the Ministry that the Director has resigned.</p>
3 (2) (xii)	Check if there is a process to identify whether a Director or an employee of a bank is appointed, elected or nominated as a director of another bank.	<p><i>Complied with;</i></p> <p>Such situation will not be arisen since the Directors are being appointed by Hon. Minister in consultation with Secretary to the Treasury. Also, the Central Bank of Sri Lanka assesses Fitness and propriety based on the declarations obtained from Directors and Key Management Personnel.</p>
3 (3)	Criteria to assess the fitness and propriety of directors	Level of Compliance
3 (3) (i)	The age of a person who serves as director does not exceed 70 years.	<p><i>Complied with;</i></p> <p>No Director of the Board is over 70 Years old.</p>
	(a) The transitional provisions have been complied with	<i>Not applicable;</i>
3 (3) (ii)	If a person holds office as a Director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the bank.	<p><i>Complied with;</i></p> <p>None of the Directors hold directorship in 20 companies as per their declarations.</p>
3 (3) (iii)	Director or CEO shall not be appointed as a Director or a CEO of another Licensed Bank operating in Sri Lanka prior to expiry of 6 months cooling-off period from the date of cessation of his/her office at a Licensed Bank.	<p><i>Not Complied;</i></p> <p>Current Acting General Manager/CEO was appointed by Finance Ministry before the expiry of a period of 6 months from the date of cessation of his/her office at the National Savings Bank.</p>
3 (4)	Management functions delegated by the board	Level of Compliance
3 (4) (i)	The delegation arrangements have been approved by the Board.	<p><i>Complied with;</i></p> <p>The Board has delegated matters pertaining to the affairs of the Bank to the Board sub-committees and also to CEO and other Key Management Personnel.</p>
3 (4) (ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	<p><i>Complied with;</i></p> <p>Board takes the responsibility for the matters in 3 (1) (i) even though such matters are delegated.</p>
3 (4) (iii)	The Board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	<p><i>Complied with;</i></p> <p>The Board reviews and approves the delegation process on a periodic basis. Approval limits has been determined according to authority level.</p>



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (5)	The Chairman and CEO	Level of Compliance
3 (5) (i)	The role of Chairman and CEO is separate and not performed by the same individual.	<p><i>Complied with;</i></p> <p>The positions of the Chairman and the CEO are separated and performed by two individuals.</p> <p>The Chairman is a Non-Executive Director and the Chief Executive Officer functioning as the executive in charge of the day-to-day management of the Bank's operation and the business.</p> <p>However, Chairman involves in the signing of agreements, Bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018 which is in line with the section 3 of the PSB Act.</p>
3 (5) (ii)	<p>The Chairman is a Non-Executive Director.</p> <p>In the case where the Chairman is not an Independent Director, check that the board designate an Independent Director as the senior Director with suitably documented terms of reference.</p> <p>The designation of the senior Director is disclosed in the bank's Annual Report.</p>	<p><i>Complied with;</i></p> <p>Chairman is an Independent Non-Executive Director. And the Bank has not designated any director as Senior Director.</p>
3 (5) (iii)	The Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	<p><i>Complied with;</i></p> <p>Annual declarations help to identify such relationships.</p>
3 (5) (iv)	<p>The Board has a self- evaluation process where the chairman:</p> <p>(a) provides leadership to the board.</p> <p>(b) ensures that the board works effectively and discharges its responsibilities; and</p> <p>(c) Ensures that all key and appropriate issues are discussed by the board in a timely manner.</p>	<p><i>Complied with;</i></p> <p>Board has evaluated their performance through self-assessment process.</p>
3 (5) (v)	A formal agenda is circulated by the company secretary approved by the chairman.	<p><i>Complied with;</i></p> <p>The agenda for each Board meeting is prepared and circulated by the Board secretary in consultation with the Chairman.</p>

Corporate Governance



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (5)	The Chairman and CEO	Level of Compliance
3 (5) (vi)	The Chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	<i>Complied with;</i> Matters to be taken up for discussions in Board Meetings are circulated with the notice of the meeting at least 07days prior to the meeting other than those which are urgent matters.
3 (5) (vii)	The Board has a self-evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	<i>Complied with;</i> Board has assessed their effectiveness through Self-assessment process.
3 (5) (viii)	The Board has a self-evaluation process that assesses the contribution of non-executive directors.	<i>Complied with;</i> Board has assessed their effectiveness through Self-assessment process.
3 (5) (ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	<i>Complied with;</i> Chairman is a Non- Executive Director and he does not involve in supervision of Key Management Personnel directly. However, Chairman involves in the signing of agreements, Bonds, deeds and other instruments on behalf of the Bank as per the decision of Board Credit Committee meeting held on 30 November 2018 which is in line with the section 3 of the PSB Act.
3 (5) (x)	There is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	<i>Complied with;</i> As per the Pradeshiya Sanwardana Bank Act No.41 of 2008, four ex-officio members have been appointed representing three share holder Banks and the General Treasury. Therefore, they act as a channel between the Board and Shareholders.
3 (5) (xi)	The CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	<i>Partially Complied with;</i> The CEO is an executive officer in charge for day-to-day management of the bank operation. However, CEO's Fitness & Propriety is pending to be submitted to the Central Bank of Sri Lanka. Further, as per section 26 of the Pradeshiya Sanwardana Bank Act No.41 of 2008, appointment of CEO also not complied. Further, actions are being taking to fill the CEO position on permanent basis.



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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

Corporate Governance



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (6)	Board appointed committees	Level of Compliance
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	<i>Not Applicable;</i> Such situation has not arisen since Auditor General is the auditor of the Bank.
	f) The committee has discussed and finalised the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	<i>Not Applicable;</i> Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.
	g) The committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	<i>Complied with;</i> The Board Audit Committee Reviews Quarterly and Annually Financial Statements of the Bank considering with major judgmental areas, changes in accounting policies, relevant accounting standards and other legal requirements. Further, Audited Financials with the disclosures are submitted to the Board.
	h) The committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.	<i>Complied with;</i> Committee had meetings with the external auditor without the executive management.
	i) The committee has reviewed the external auditor's management letter and the management's response thereto.	<i>Complied with;</i> Committee has reviewed the Management Letter for the year 2019 and the responses there to.



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (6)	Board appointed committees	Level of Compliance
	j) The committee shall take the following steps with regard to the internal audit function of the bank:	
	i. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	<i>Complied with;</i>
	ii. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	<i>Complied with;</i>
	iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	<i>Complied with;</i> Board Audit Committee reviews Annual Performance Appraisal Report of the Chief Internal Auditor only. Appraisal of the year 2020 of Assistant General Manager who overlook the CIA functions will be submitted for approval of the next Board Audit Committee meeting together with year 2021
	iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	<i>Complied with;</i> The appointment was approved by the full board with the recommendation of the Board Audit committee.
	v. The committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	<i>Complied with;</i> The committee is appraised of the performance of Head of Audit of the Internal Audit Department.
	vi. The internal audit function is independent of the activities it audits.	<i>Complied with;</i> Internal audit function is independent of the activities it audits and directly report to the Board Audit Committee.
	k) The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	<i>Complied with;</i> The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.
	l) Whether the committee has had at least two meetings with the external auditors without the executive directors being present.	<i>Complied with;</i> The committee has had two meetings with the external auditor without the Executive Directors.

Corporate Governance



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (6)	Board appointed committees	Level of Compliance
	<p>m) The terms of reference of the committee to ensure that there is;</p> <p>(i) explicit authority to investigate into any matter within its terms of reference;</p> <p>(ii) the resources which it needs to do so; (iii) full access to information; and</p> <p>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>	<p><i>Complied with;</i></p> <p>The "Term of Reference" of the Audit Committee covers all these areas.</p>
	n) The committee has met, at least four times and maintained minutes.	<p><i>Complied with;</i></p> <p>Four committee meetings had been held during the Year 2020 and maintained minutes.</p>
	o) The Board has disclosed in the annual report, details of the activities of the audit committee; the number of audit committee meetings held in the year; and details of attendance of each individual director at such meetings	<p><i>Complied with;</i></p> <p>Details of the activities, number of audit committee meetings held, and details of attendance are disclosed in the annual report.</p>
	p) The Secretary of the Committee is the company secretary or the head of the internal audit function.	<p><i>Complied with;</i></p> <p>Board Secretary is the secretary to the Audit Committee.</p>
	q) The "whistle blower" policy covers the process of dealing with;	<p><i>Complied with;</i></p> <p>Board approved "whistle blower" policy is in place.</p>
	<p>i) The improprieties in financial reporting, internal control or other matters.</p> <p>ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and</p> <p>iii) Appropriate follow-up action.</p>	
3 (6) (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	a) The committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the "Terms of reference" and minutes.	<p><i>Complied with;</i></p> <p>Remunerations of Directors are governed by Public Enterprise Department Circulars. The Committee has approved a Remuneration policy to determine the remuneration, allowances and other financial payments relating to Key Management personnel.</p>



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (6)	Board appointed committees	Level of Compliance
	b) The goals and targets for the directors, CEO and the key management personnel are documented.	<p><i>Partially Complied with;</i></p> <p>Action will be taken to sets the Goals & Targets for Directors based on their areas of expertise and goals and targets for CEO have been documented through Board Charter.</p> <p>Further, Goals and Targets for the key management personnel have been documented as per action plan given by some key management personnel.</p>
	c) The Committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically to determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	<p><i>Partially Complied with;</i></p> <p>The Board HR & Remuneration Committee had evaluated the performance of key management personnel. However, performances of some Key Management Personnel which should be evaluated within this year has not been evaluated up to now. The performance evaluation of CRO, CO and CIA who are engaged the independent functions are being reviewed by relevant Board Sub Committees.</p>
	d) The "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	<p><i>Complied with;</i></p> <p>The CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed as per the provision.</p>
3 (6) (iv)	Does the following rules apply in relation to the Nomination Committee:	
	a) The committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	<p><i>Partially Complied with:</i></p> <p>Appointments of Directors are done by the Hon. Minister in terms of the provisions of PSB Act. The Board appoints the CEO. However, Acting General Manager/ CEO had been appointed by Finance Ministry due to excergency situation arisen at the General Manager position. Committee sets the criteria to select/appoint/ promote key Management personnel.</p>
	b) The committee has considered and recommended (or not recommended) the re-election of current directors.	<p><i>Not Applicable;</i></p> <p>The Hon. Minister appoints the Board of Directors in consultation with Secretary to the Treasury.</p>
	c) The committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	<p><i>Complied with;</i></p> <p>The required qualification and experience to be eligible for selection for the posts of Chief Executive Officer, Deputy General Managers & Regional General Managers have been determined by Pradeshiya Sanwardana Bank Act No.41 of 2008. Eligibility/Selection criteria and qualifications for key Management personnel are determined by the Nomination Committee / Board.</p>

Corporate Governance



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (6)	Board appointed committees	Level of Compliance
	d) The committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	<p><i>Partially Complied with;</i></p> <p>Declarations on fitness and propriety of the Directors and Key Management Personnel were obtained and approved by Bank Supervision Department which have been updated by the Bank at the change of Positions / Qualifications.</p> <p>Declarations on fitness and propriety of the Acting CEO was not yet submitted and 08 KMP's affidavits are pending approval of CBSL.</p>
	e) The committee has considered a formal succession plan for the retiring directors and key management personnel.	<p><i>Partially Complied with;</i></p> <p>The succession arrangements for the Directors are being done through Hon. Minister in terms of PSB Act.</p> <p>Board approved updated Succession Policy is in place and Succession Plan had been updated during the 2021. However, it needs to be revisited.</p>
	f) The Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	<p><i>Complied with;</i></p> <p>An Independent Director has chaired at the meetings. As per the TOR, CEO participates at meetings by invitation. However, CEO has participated at all meetings.</p>
3 (6) (v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC):	
	a) The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	<p><i>Complied with;</i></p> <p>The committee consists of 03 Non-Executive Directors, Chief Executive Officer and Chief Risk Officer. The Compliance Officer attends meetings on invitation.</p>
	b) The committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	<p><i>Complied with;</i></p> <p>The committee assesses risks and prepares the report on Key Risk Indicators of the Bank on a monthly basis by Assistant General Manager- Risk and submits to the Board. Also recommendations of the IRMC are submitted for the review of Board of Directors. However, assessing of some risks need to be further improved reflecting the risk profile of the Bank.</p>
	c) The committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	<p><i>Complied with;</i></p> <p>Management level committee meeting minutes were reviewed by the by BIRMC to ensure adequacy and effectiveness of committee operations.</p>



ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (6)	Board appointed committees	Level of Compliance
	d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	<i>Complied with;</i> Reports on Key Risk Indicators were reviewed by the committee.
	e) How many times the committee has met at least quarterly.	<i>Complied with;</i> Committee has met 04 times during the year 2020.
	f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	<i>Complied with;</i> The formal disciplinary code is in place. The committee has taken decisions relating to risk matters through the committee papers. However, there are no any identified events for the year of 2020.
	g) The committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	<i>Complied with;</i> Report on the Key Risk Indicators of the Bank is prepared on a monthly basis by AGM- Risk of the Bank and submitted at the very next Board meeting. Further, minutes of the IRMC meetings are submitted to the Board.
	h) The committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	<i>Complied with;</i> Compliance function of the Bank is headed by the Compliance Officer and a compliance risk assessment report is submitted to BIRMC periodically by the Compliance Officer.
3 (7)	Related party transactions	Level of Compliance
3 (7) (i)	There is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:	<i>Complied with;</i> Updated and Board approved policy on Related Party Transaction is available. Transactions belongs to related parties can be captured through system using the NIC based on the declarations.

Corporate Governance



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நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (7)	Related party transactions	Level of Compliance
	<ul style="list-style-type: none"> a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the directors of the bank; d. Any of the bank's key management personnel; e. A close relation of any of the bank's directors or key management personnel; f. A shareholder owning a material interest in the bank; g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest. 	
3 (7) (ii)	There is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.	<p>Complied with;</p> <p>Related Party Transaction Policy which was updated in 2021 and approved by Board is in place. Related party transactions can be identified based on declarations provided.</p>
	a) The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	
	b) The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	
	c) The provision of any services of a financial or non-financial nature provided to the bank or received from the bank.	
	d) The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	
3 (7) (iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7) (i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.	<p>Partially Complied with;</p> <p>Accommodation granted to directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two thirds of the number of directors constituting the Board. Process will be established to identify that the bank does not grant the more favorable treatment to Key Management Personnel for comply with the updated Related Party Policy.</p> <p>However, one incident of more favorable treatment has been identified relating to Key Management Personnel.</p>



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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

Corporate Governance



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நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (7)	Related party transactions	Level of Compliance
3 (7) (v)	<p>a) The bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director.</p> <p>b) Where such security is not provided by the period as provided in Direction 3(7) (v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.</p> <p>c) There is a process to identify any Director who fails to comply with the above sub-directions be deemed to have vacated the office of Director and has the Bank disclosed such facts to the public.</p> <p>d) The process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employees of such bank.</p>	<p><i>Complied with;</i></p> <p>The Board approved policy on Related Party Transaction cover this requirement.</p> <p>Such a situations has not arisen. However, above policy covers this requirement.</p> <p>Such a situations has not arisen. However, above policy covers this requirement.</p> <p>Such a situations has not arisen. However, above policy covers this requirement.</p>
3 (7) (vi)	<p>There is a process in place to identify when the bank grants any accommodation or "more favorable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.</p>	<p><i>Complied with;</i></p> <p>Accommodation granted to Directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two thirds of number of directors constituting the Board.</p> <p>Further, accommodations are granted to employees in the normal course of business.</p>



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நேதரிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

3 (7) (vii)	There is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7) (v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect.	Not Complied ; Previous Related Party Transaction Policy had been covered this area. However, updated policy during the year 2021 does not cover this area and to be considered with next review. Further, such a situation has not been arisen.
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3 (8)	Disclosures	Level of Compliance
3 (8) (i)	The board has disclosed: (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with; Annual audited financial statements are prepared and published in accordance with the format prescribed by the supervisory and regulatory authorities and applicable accounting standards. Those Statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.
3 (8) (ii)	Check that the board has made the following minimum disclosures in the Annual Report. a) The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. b) The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. c) The board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	Complied with; The notes to the Financial Statements disclose that the Financial Statements have been prepared in accordance with Sri Lanka Accounting standards in compliance with the requirement of the Banking Act No.30 of 1988. Complied with; Report of the Internal Control System over Financial Reporting is given under the "Directors' Statement on Internal Control". Complied with; The Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting from the Auditor General.

Corporate Governance



ජාතික විගණන කාර්යාලය
நேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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

Attendance of the Board and Board Committees

BOARD OF DIRECTORS/BOARD SUBCOMMITTEES COMPOSITION AND DIRECTORS/ COMMITTEE MEMBERS ATTENDANCE AT BOARD AND BOARD SUB-COMMITTEE MEETINGS DURING YEAR 2020

Name of Directors and Executive /Non-Executive/Independent Capacity	of Board Directors			Board Audit Committee			Board Integrated Risk Management Committee			Board HR and Remuneration Committee			Board Credit Committee			Board Nomination Committee			Board IT Steering Committee		
	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A	* S	* E	* A	* S
* Mr. M. Mahinda Saliya (Chairman)	08	08	-	-	-	-	-	-	-	C	03	03	C	03	03	C	03	03	-	-	-
** Mr. T. Kuhan (General Manager/CEO)	15	15	BI	02	02	-	03	03	-	05	05	-	04	04	BI	05	05	-	02	02	-
*** Ms. R. M. D. K. Rathnayake (Acting General Manager)	02	01	BI	02	02	-	01	01	-	01	01	-	01	01	BI	01	01	-	02	01	-
**** Mr. A. K. Seneviratne (Board Director)	14	14	M	02	02	M	03	03	M	02	01	M	03	03	M	02	01	M	02	02	-
***** Mr. M. J. P. Salgado (Board Director)	01	00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
***** Mr. K. B. Wijeyaratne (Board Director)	12	12	M	02	02	C	03	03	M	03	03	M	03	03	M	03	03	M	02	02	-
***** Mr. M. A. B. Silva (Board Director)	01	01	-	-	-	-	-	-	M	01	01	M	01	00	M	01	01	-	-	-	-
Mr. W. M. Karunaratne (Board Director)	17	13	M	02	02	-	-	-	-	-	-	M	05	04	-	-	-	-	-	-	-
Mr. M. S. D. Ranasiri (Board Director)	17	17	C	04	04	-	-	-	-	-	-	M	05	05	-	-	-	M	02	02	-
Mr. Lalith Abeysiriwardena (Board Director)	17	17	-	-	-	-	-	-	M	06	06	M	05	04	M	06	06	-	-	-	-
Dr. Nirmal De Silva (Board Director)	17	16	-	-	-	-	-	-	C	06	06	-	-	-	C	06	06	C	04	04	-
Prof. H. M. W. A. Herath (Board Director)	17	17	-	-	-	M	04	04	M	06	06	-	-	-	M	06	06	-	-	-	-
***** Mr. K. E. D. Sumanasiri (Board Director)	11	10	-	-	-	M	01	01	M	03	01	-	-	-	M	03	01	M	01	01	-
***** Mr. B. M. Premanath (Board Director)	03	02	M	01	01	-	-	-	-	-	-	M	01	01	-	-	-	-	-	-	-
***** Mr. P. Algama (Board Director)	02	02	M	02	01	C	01	01	-	-	-	-	-	-	-	-	-	M	01	01	-
***** Mr. K. Raveendran (Board Director)	02	01	-	-	-	M	01	00	-	-	-	-	-	-	-	-	-	M	01	00	-

*S – Status of Director in Respective Committees

C – Chairman of Committee

M – Member of the Committee

*E – Eligibility of Attendance

*A – Attendance

BI – By Invitation

* Fit & propriety received on 10.08.2020

** released to the Ministry of Finance w.e.f. 02.11.2020

*** appointed on 02.11.2020

**** resigned w.e.f. 02.11.2020

*****term expired on 28.02.2020

*****retired w.e.f. 19.09.2020

***** resigned w.e.f. 04.03.2020

***** appointed on 19.05.2020

***** appointed on 24.07.2020

***** appointed on 02.11.2020 and retired w.e.f. 20.12.2020

***** appointed on 14.10.2020

Annual Report of the Board of Directors

GENERAL

The Directors of the Pradeshiya Sanwardhana Bank (PSB) take pleasure in presenting their Annual Report on the affairs of the Bank, together with the audited Financial Statements of the Bank's eleventh year ended 31st December 2020. The Report also conforms to the requirements of the Pradeshiya Sanwardhana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and Directions on Corporate Governance. The Bank was originally established in 1997 when seventeen Rural Development Banks were merged into six banks namely, Rajarata, Ruhuna, Wayamba, Uva, Kandurata and Sabaragamuwa Development Banks. These six Provincial Development Banks were further merged in May 2010 as a National Level Development Bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or PSB). PSB was established under the Pradeshiya Sanwardhana Bank Act No. 41 of 2008. PSB is a fully state-owned national level Bank with the objectives of empowering the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

PRINCIPAL ACTIVITIES

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

VISION, MISSION

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

GOING CONCERN

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

FINANCIAL STATEMENTS

The Financial Statements of the Bank have been prepared in accordance with the Sri Lanka Accounting

Standards (SLFRSs/ LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and complied with the Banking Act No. 30 of 1988. The Financial Statements of the Bank's 11th year ended 31st December 2020, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 111 and form an integral part of the Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Directors' Responsibility Statement appearing on page 98 of this Annual Report describes in detail the Directors' responsibilities in relation to the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

AUDITOR'S REPORT

The Auditor General carried out the audit of the Bank in 2020, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information, were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 104 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of Financial Statements are given on pages 119 to 134.

DIRECTORS' REMUNERATION

Details of Directors' emoluments paid during the year are given in Note 12 of the Financial Statements.

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Chairman's statement (pages 8 to 11), the General Manager/ CEO's review (pages 12 to 14) and the Management Discussion and Analysis (pages 32 to 46)

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2020 is contained in the Chairman's statement (pages 8 to 11), the General Manager/ CEO's review (pages 12 to 14) and the Management Discussion and Analysis (pages 32 to 46). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank's financial and operational performance is given on the General Manager/ CEO's Review on pages 12 to 14 and in the Financial Highlights on pages 6 to 7.

STATED CAPITAL

The total shareholders' fund as at 31.12.2020 is LKR 15.1 Bn. The Stated Capital contributed by shareholders at the end of year is LKR 8.05 Bn and their percentage of shareholding is as follows.

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

INCOME

The gross income of the Bank for 2020 was LKR 24.35 Bn. Details of the income are given on page 135.

TAXATION

The Bank contributed LKR 1,771 Mn. by way of taxes and levies to the Government in 2020. This consisted of LKR 724 Mn. of Income Tax and LKR 1,047 Mn. of

Financial Services Value Added Tax. The Income Tax Rate applicable on the Bank's operations is 24%. It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method.

PROPERTY, PLANT & EQUIPMENT

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, Leasehold Property and Intangible Assets during the year amounted to LKR 47 Mn. (2019 LKR 232 Mn.), the details of which are given in notes 24 and 25 of the Financial Statements on pages 152 to and 159 of this Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

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

OUTSTANDING LITIGATION

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

CAPITAL & RESERVES

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

	2020 LKR	2019 LKR
Stated Capital	8,047,229,930	8,047,229,930
Statutory Reserve Fund		
Fund	762,462,998	742,261,195
Special Reserve Fund	616,853,326	596,651,523
General Reserve Fund	3,238,451,740	3,157,644,530
Retained Earnings	2,449,318,947	2,421,534,400
Total	15,114,316,941	14,965,321,578

DIVIDENDS

In view of marginal operating results of the year 2020, the board of directors have not approved a dividend distribution out of profits for the year 2020.

Annual Report of the Board of Directors

BOARD OF DIRECTORS

The Board of Directors comprises 09 Members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 16 to 21 of this Annual Report.

Mr. M. Mahinda Saliya	Chairman
Mr. K. Raveendran	Non- Independent/ Non-Executive Director
Mr. B.M. Premanath	Non- Independent/ Non-Executive Director
Mr. K.E.D. Sumanasiri	Non- Independent/ Non-Executive Director
Mr. M.S.D. Ranasiri	Independent/ Non-Executive Director
Mr. W.M. Karunaratne	Independent/ Non-Executive Director
Prof. H.M.W. Ariyaratne Herath	Independent/ Non-Executive Director
Dr. Nirmal De Silva	Independent/ Non-Executive Director
Mr. Lalith Abeyesiriwardena	Independent/ Non-Executive Director

RESIGNATION OF DIRECTORS

Mr. M.J.P. Salgado	Non- Independent/ Non-Executive Director, term expired on 28.02.2020
Mr. M.A.B. Silva	Resigned w.e.f. 04.03.2020
Mr. K.B. Wijeyaratne	Non- Independent/ Non-Executive Director, Retired from 19.09.2020
Mr. A.K. Seneviratne	Non- Independent/ Non-Executive Director, Resigned from 02.11.2020
Mr. P. Algama	Independent/ Non-Executive Director, Retired from 20.12.2020

NEW APPOINTMENT OF DIRECTORS

Director	Appointment Date
Dr. Nirmal De Silva	03.01.2020
Prof. H.M.W. Ariyaratne Herath	03.01.2020
Mr. W.M. Karunaratne	03.01.2020
Mr. Lalith Abeyesiriwardena	03.01.2020
Mr. M.S.D. Ranasiri	03.01.2020
Mr. A.K. Seneviratne	Reappointed on 11.01.2020
Mr. K.E.D. Sumanasiri	19.05.2020
Mr. B.M. Premanath	24.07.2020
Mr. K. Raveendran	14.10.2020
Mr. P. Algama	02.11.2020

BOARD SUB COMMITTEES

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

BOARD AUDIT COMMITTEE

Mr. M.S.D. Ranasiri (Chairman of the Committee)
Mr. A.K. Seneviratne (resigned w.e.f. 02.11.2020)
Mr. K.B. Wijeyaratne (retired w.e.f. 19.09.2020)
Mr. P. Algama (appointed on 02.11.2020 and retired w.e.f. 20.12.2020)
Mr. W.M. Karunaratne (appointed on 16.10.2020)
Mr. B.M. Premanath (appointed on 27.11.2020)
An Audit Superintendent of National Audit Office
Mr. C.L.C. Muthubanda – AGM – Internal Audit

Report of the Audit Committee is given on page 90 and forms a part of the Directors' Report.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. K.B. Wijeyaratne (Chairman of the Committee, retired w.e.f. 19.09.2020)
Mr. A.K. Seneviratne (resigned w.e.f. 02.11.2020)
Prof. H.M.W.A. Herath
Mr. P. Algama (Chairman of the Committee, appointed on 27.11.2020 and retired w.e.f. 20.12.2020)
Mr. K.E.D. Sumanasiri (appointed on 27.11.2020)
Mr. K. Raveendran (appointed on 27.11.2020)
Mr. T. Kuhan – GM/CEO until 02.11.2020
Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
Mr. K.C.D. Dharmapriya – AGM – Risk Management (until 25.06.2020)
Mr. G.M.B.C. De Silva – AGM – Risk Management (from 29.06.2020)
Mr. W.M.D.S. Wickramasinghe – Compliance Officer (until 04.05.2020)
Mrs. T. K. Wijeratne – Compliance Officer (from 05.05.2020)

Report of the Integrated Risk Management Committee is given on page 95 which forms part of the Directors' Report.

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

Mr. M. Mahinda Saliya
Dr. Nirmal De Silva
Mr. M.A.B. Silva (resigned w.e.f. 04.03.2020)
Mr. K.B. Wijeyaratne (appointed on 20.04.2020 and retired w.e.f. 19.09.2020)
Mr. Lalith Abeyesiriwardena
Prof. H.M.W.A. Herath
Mr. A. K. Seneviratne (appointed on 20.04.2020 and resigned w.e.f. 02.07.2020)
Mr. K.E.D. Sumanasiri (appointed on 02.07.2020)
Mr. T. Kuhan – GM/CEO until 02.11.2020
Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
Mr. K.M.J.S. Karunathilake – Head of HRD & Administration (retired 08.06.2020)

BOARD INFORMATION & COMMUNICATION TECHNOLOGY COMMITTEE

Dr. Nirmal De Silva (Chairman of the Committee)
Mr. A.K. Seneviratne (resigned w.e.f. 02.11.2020)
Mr. P. Algama (appointed on 02.11.2020 and retired w.e.f. 20.12.2020)
Mr. K.B. Wijeyaratne (retired w.e.f. 19.09.2020)
Mr. M.S.D. Ranasiri (appointed on 02.11.2020)
Mr. K.E.D. Sumanasiri (appointed on 27.11.2020)
Mr. K. Raveendran (appointed on 27.11.2020)
Mr. T. Kuhan – GM/CEO until 02.11.2020
Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020
Mr. V. Jayasinghe – Chief Information Officer

BOARD CREDIT COMMITTEE

Mr. M. Mahinda Saliya (Chairman of the Committee)
Mr. W.M. Karunaratne
Mr. K.B. Wijeyaratne (retired w.e.f. 19.09.2020)
Mr. M.S.D. Ranasiri
Mr. M.A.B. Silva (resigned w.e.f. 04.03.2020)
Mr. Lalith Abeyesiriwardena
Mr. A.K. Seneviratne (appointed on 20.04.2020 resigned w.e.f. 02.11.2020)
Mr. B.M. Premanath (appointed on 27.11.2020)
Mr. T. Kuhan – GM/CEO until 02.11.2020
Mrs. R.M.D.K. Rathnayake – acting GM/CEO (appointed on 02.11.2020)
Mr. A.H.M.M.B. Jayasinghe – DGM – Credit & Recovery

Annual Report of the Board of Directors

BOARD NOMINATION COMMITTEE

Mr. M. Mahinda Saliya

Dr. Nirmal De Silva

Mr. M.A.B. Silva (resigned w.e.f. 04.03.2020)

Mr. K.B. Wijeyaratne (retired w.e.f. 19.09.2020)

Mr. Lalith Abeysiriwardena

Prof. H.M.W.A. Herath

Mr. A. K. Seneviratne (appointed on 20.04.2020 and resigned w.e.f. 02.07.2020)

Mr. K.E.D. Sumanasiri (appointed on 02.07.2020)

Mr. T. Kuhan – GM/CEO until 02.11.2020 (By invitation)

Mrs. R.M.D.K. Rathnayake – acting GM/CEO from 02.11.2020 (By invitation)

Mr. K.M.J.S. Karunathilake - Head of HRD & Administration (retired w.e.f. 08.06.2020)

DIRECTORS' MEETINGS

The number of Directors' meetings which comprise Board Meetings, Board Audit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board Human Resource and Remuneration Committee Meetings, Board Nomination Committee Meetings, Board Credit Committee Meetings and Board IT Steering Committee Meetings and the attendance of Directors at these meetings are given on Corporate Governance Report page 83 of this Annual Report.

DIRECTORS' INTEREST IN CONTRACTS

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

RELATED PARTY TRANSACTIONS

The Directors have also disclosed the transactions, if any, that could classify as related party transactions in terms of Sri Lanka Accounting Standards (LKAS24) Related Party Disclosures, which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 39 to the Financial Statements.

GENERAL MANAGER/CHIEF EXECUTIVE OFFICER

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

HUMAN RESOURCES

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

OPERATIONAL EXCELLENCE

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

ENVIRONMENTAL PROTECTION

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

STATUTORY PAYMENTS

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

RISK MANAGEMENT INTERNAL CONTROLS AND MANAGEMENT INFORMATION SYSTEM

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been re-designed to mitigate the risks to which the Bank is exposed to and provide reasonable assurance against material misstatements

or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risks are detailed on pages 51 to 57 to this Annual Report.

DIRECTORS' STATEMENT OF INTERNAL CONTROL

The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The above report, which forms an integral part of the Annual Report of the Board of Directors, is given on pages 101 to 102. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 99 of this Annual Report.

CORPORATE GOVERNANCE

In the management to the Bank, the Directors have placed emphasis on conforming to the best corporate governance practices and procedures. Accordingly, systems and structures have been introduced / improved from time to time to enhance risk management measures and to improve accountability and transparency. A separate report on corporate governance is given on pages 61 to 83 for which the Board has obtained a Report of Factual Findings from the Auditor General.

COMPLIANCE WITH LAWS, REGULATIONS AND PRUDENTIAL REQUIREMENTS

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

AUDITORS

The Auditor General carried out the audit of the Financial Statements of the Bank for the financial year ended 31st December 2020.

By the order of the Board



Secretary to the Board

Board Audit Committee (BAC) Report

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

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

COMPOSITION OF THE COMMITTEE

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

1. Mr. M.S.D. Ranasiri (Chairman of the Committee)
2. Mr. A.K. Seneviratne (resigned w.e.f. 02.11.2020)
3. Mr. K.B. Wijeyaratne (retired w.e.f. 19.09.2020)
4. Mr. P. Algama (appointed on 02.11.2020)
5. Mr. W.M. Karunaratne (appointed on 16.10.2020)
6. Mr. B.M. Premanath (appointed on 27.11.2020)

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

CHARTER OF THE COMMITTEE

The charter of the BAC approved by the Board clearly defines the Terms of Reference of the Committee.

DUTIES AND ROLE OF THE BOARD AUDIT COMMITTEE

The BAC is responsible for -

- Reviewing of financial information of the Bank, in order to monitor integrity of the Financial

Statements of the Bank, its Annual Report, Accounts and Quarterly Reports prepared for disclosure.

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

MEETINGS

Meetings of the committee are convened quarterly, in accordance with the regulations/guidelines for organisational corporate governance issued by the Central Bank of Sri Lanka. Four (04) Audit Committee meetings have been held during the financial year ended 31st December.2020.

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

Attendance of committee members is as follows:

Name of the committee member	Attendance
Mr. M.S.D. Ranasiri	04/04
Mr. A.K. Seneviratne	02/02
Mr. K.B. Wijeyaratne	02/02
Mr. P. Algama	01/02
Mr. W.M. Karunaratne	02/02
Mr. B.M. Premanath	01/01

INTERNAL AUDIT AND INSPECTION

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

The spread of the Coronavirus ("COVID-19") has directly impacted to carry out audit as per audit plan in 2020. Hence most of the branch audit converted to system-based audits. According to the Internal Audit plan during the year under review, Branches, Human Resource Division, Compliance Division, Risk Management Division, one province office, Seven District Offices have been audited by the Internal Audit Department under the supervision & guidance of the Board Audit Committee. At the same time BAC has assisted the Board in ensuring that Annual Financial Statement and Interim Financial Statements have been prepared and published in accordance with the requirements prescribed by the supervisory and regulatory authorities and applicable accounting standards.

The BAC also followed up on corrective measures taken by the management during the year 2020 on matters raised by CBSL Statutory Examination Report and by the Report of National Audit Office issued in terms of Section 13(7) (a) of the Finance act No.38 of 1971 for the year 2019 and Management Letter 2019.

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

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

EXTERNAL AUDIT

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

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

SRI LANKA ACCOUNTING STANDARDS

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

ACTIVITIES PERFORMED IN YEAR 2020

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

1. Approved the Annual Audit Plan prepared based on risk profiles of the areas of the Bank for the year 2020.
2. Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of section 13 (7) of the Finance Act No.38 of 1971 for the year 2019 and the management responses thereon.
3. Reviewed and discussed issues raised at CBSL Statutory Examinations and monitored the progress of rectification.
4. Reviewed quarterly financial performance of the Bank for the year 2020 and recommended to submit the same to the Board
5. Periodically review of internal audit reports and the performance of the Internal Audit Department



M.S.D. Ranasiri

Chairman

Board Audit Committee

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

INTRODUCTION

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

THE SCOPE OF BHRRC INCLUDES

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

THE SCOPE OF BNC INCLUDES

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

- Considering and recommending from time to time, the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel.
- Make recommendations to the Board relating to the matters, proposals submitted by the Human Resources Policy Committee.

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

COMPOSITION AND MEETINGS

The two Committees were headed as follows.

1. First 03 committees – Dr. Nirmal De Silva
2. Next 03 committees – Mr. M. Mahinda Saliya - Chairman

Six (06) Board Human Resources and Remuneration Committee meetings and six (06) Board Nomination Committee meetings were held during the year ended 31st December 2020.

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

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

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

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

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

Board Human Resources and Remuneration Committee Members

Name	Attended/ eligible
Mr. M. Mahinda Saliya – Chairman (Appointed w.e.f. February 26, 2020 and certificate of fit & propriety was received w.e.f. August 10, 2020)	03/03
Dr. Nirmal De Silva – Director (Appointed w.e.f. February 26, 2020)	06/06
Mr. M.A.B. Silva – Director (Resigned w.e.f. March 05, 2020)	01/01
Mr. K.B. Wijeyaratne – Director (Retired w.e.f. September 19, 2020)	03/03
Mr. Lalith Abeyesiriwardena – Director (Appointed w.e.f. February 26, 2020)	06/06
Prof. H.M.W.A. Herath – Director (Appointed w.e.f. February 26, 2020)	06/06
Mr. A.K. Seneviratne – Director (Resigned w.e.f. July 02, 2020)	01/02
Mr. K.E.D. Sumanasiri – Director (Appointed w.e.f. July 02, 2020)	01/03
Mr. T. Kuhan – General Manager/CEO	
Mrs. R.M. Damitha Rathnayaka – Actg. General Manager/CEO	
Mrs. R.M.T. Rajapakse – Board Secretary	

Board Nomination Committee Members

Name	Attended/ eligible
Mr. M. Mahinda Saliya – Chairman (Appointed w.e.f. February 26, 2020 and certificate of fit & propriety was received w.e.f. August 10, 2020)	03/03
Dr. Nirmal De Silva – Director (Appointed w.e.f. February 26, 2020)	06/06
Mr. M.A.B. Silva – Director (Resigned w.e.f. March 05, 2020)	01/01
Mr. K.B. Wijeyaratne – Director (Retired w.e.f. September 19, 2020)	03/03
Mr. Lalith Abeyesiriwardena – Director (Appointed w.e.f. February 26, 2020)	06/06
Prof. H.M.W.A. Herath – Director (Appointed w.e.f. February 26, 2020)	06/06
Mr. A.K. Seneviratne – Director (Resigned w.e.f. July 02, 2020)	01/02
Mr. K.E.D. Sumanasiri – Director (Appointed w.e.f. July 02, 2020)	01/03
Mr. T. Kuhan – General Manager/CEO	
Mrs. R.M. Damitha Rathnayaka – Actg. General Manager/CEO	
Mrs. R.M.T. Rajapakse – Board Secretary	

SUMMARY OF ACTIVITIES

In March 2020, the Board considered the need for reconstitution of the two committees in view of the resignation of Mr. M.A.B. Silva who was a member of the BNC & BHRRC. Accordingly, Mr. K.B. Wijeyaratne – Director and Mr. A.K. Seneviratne – Director were appointed as a members of BNC and BHRRC.

In July and September 2020, in view of the resignations of Mr. K.B. Wijeyaratne – Board Director and Mr. A.K. Seneviratne – Board Director, it was decided to appoint Mr. K.E.D. Sumanasiri – Board Director as a member of the BNC and BHRRC.

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



Mr. M. Mahinda Saliya

Chairman

Board Human Resources and Remuneration Committee

Board Nomination Committee

Board ICT Committee (BICTC) Report

SCOPE

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

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

COMPOSITION OF THE BICTC COMMITTEE:

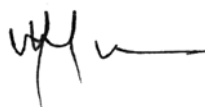
The BICTC approved by the Board of Directors of the Pradeshiya Sanwardana Bank (RDB) comprises of the following Members.

Board ICT Committee Members:

1. Dr. Nirmal De Silva (Chairman of the Committee)
2. Mr. A.K. Seneviratne (resigned w.e.f. 02.11.2020)
3. Mr. P. Algama (appointed on 02.11.2020)
4. Mr. K.B. Wijeyaratne (retired w.e.f. 19.09.2020)
5. Mr. M.S.D. Ranasiri (appointed on 02.11.2020)
6. Mr. K.E.D. Sumanasiri (appointed on 27.11.2020)
7. Mr. K. Raveendran (appointed on 27.11.2020)

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

The quorum of the meeting of BICTC is two (02) Members. BICTC has conducted four (04) meetings during the year 2020 thus meeting the Regulatory requirements. Meetings were held on 09.06.2020, 13.07.2020, 11.11.2020 and 31.12.2020.



Chairman
Board ICT Committee (BICTC)

Integrated Risk Management Committee Report

COMPOSITION OF THE COMMITTEE

During the year under review the Integrated Risk Management Committee (IRMC) consist of the following six Non-Executive Directors, whose profiles are given on page 16 to 21.

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

1. Mr. K.B. Wijeyaratne (Chairman of the Committee / Non-Executive Director/ retired w.e.f. 19.09.2020)
2. Mr. A.K. Seneviratne (Non-Executive Director / resigned w.e.f. 02.11.2020)
3. Prof. H.M.W.A. Herath
4. Mr. P. Algama (Chairman of the Committee appointed on 27.11.2020/ Non-Executive Director)
5. Mr. K.E.D. Sumanasiri (Non-Executive Director / appointed on 27.11.2020)
6. Mr. K. Raveendran (Non-Executive Director / appointed on 27.11.2020)

Regular attendants on Chief Executive Officer (CEO), Chief Risk Officer (CRO) and Compliance Officer attended the meetings on regular basis during the year 2020.

SECRETARY TO THE COMMITTEE

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

BIRMC meets on a quarterly basis however based on the needs, meetings are being fixed accordingly. During the year 2020, RDB convened four meetings and minimum quorum of the Committee is two non-executive directors, CEO and CRO as per the charter of the BIRMC.

The Committee meets on a quarterly basis as per the Charter. However, additional meetings are convened based on the requirement. During the year 2020, the Committee has met only four times.

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

Meetings

Name of the Committee member	Attendance
Mr. K.B. Wijeyaratne	03/03
Mr. A.K. Seneviratne	03/03
Prof. H.M.W.A. Herath	04/04
Mr. P. Algama	01/01
Mr. K.E.D. Sumanasiri	01/01
Mr. K. Raveendran	00/01

TERMS OF REFERENCE OF THE COMMITTEE

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

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

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

Integrated Risk Management Committee Report

5. Periodically assess performance against internally defined risk appetite.
6. Review the Bank's compliance report and action taken in relation to report.
7. Review issues related to integrated risk management framework.
8. To review progress on Basel III road map implementation and regulatory guidelines.
8. Submitted recommendations on key risk indicators of the Bank.
9. Reviewed and made recommendation on loan review process of the Bank.
10. Reviewed System down time, ATM downtime and IT risk related Issues.
11. Monitor the rectification/Compliance process of the CBSL statutory concerns.
12. Discussed and attended to the matters on compliance Risk assessment.
13. Discusses matters related to the recovery mechanism of the Bank.

ACTIVITIES DURING THE YEAR 2020

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

1. Reviewed and recommended the following policies
 - Credit risk management policy
 - Operational risk management policy
 - Liquidity risk management policy
 - Interest rate risk management policy
 - Stress testing policy
 - Integrated risk management framework
 - Market risk management policy
 - Loan Review Policy
 - Compliance Policy
2. Monitored and reviewed the sectorial limits of the loan portfolio of the bank which have exceeded the approved limits and made recommendations for the adjustments
3. Reviewed the comprehensive Compliance Reports submitted by the Compliance Officer to assess the extent of compliance with the regulatory requirements.
4. Monitored the overall Key Risk Indicators of the Bank
5. Recommended and reviewed the Acceptable usage policy and Information security policy to smooth functioning of Information Security and IT risk related issues.
6. Approved and adopted the action plan of the Risk Management Department.
7. Reviewed all minutes of the management level committees (Operational Risk Management Subcommittee, Management Committee, Assets and liability Management Committee, Operations premises committee)

REPORTING

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

Chairman
Integrated Risk Management Committee

18 March 2021
Colombo

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

The Financial Statements of the Pradeshiya Sanwardana Bank as at 31st December 2020 are prepared and presented in compliance with the following regulatory requirements:

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

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

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

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

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

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

The Financial Statements of the Bank was audited by National Audit Office. The Report issued by Auditor General is available on pages 104 to 108 of the Annual Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 90 to 91 to ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee at the Audit Committee Meeting to discuss any matter of substance.

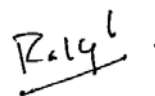
We confirm to the best of our knowledge that:

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

There is no material non-compliance;

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

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



Ms. R. M. Damitha Kumari
Acting General Manager/CEO



P.S. Edirisuriya
Chief Financial Officer

25th June 2021

Directors' Responsibility for Financial Reporting

This statement of the Board of Directors sets out the responsibilities of the Directors relating to the Financial Reporting framework of the Bank. The responsibilities of the Auditors in relation to the Financial Statements are set out in the Report of the Auditors on page 104 of the Annual Report.

FINANCIAL STATEMENTS

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

The Directors Acknowledge that in the preparation of Financial Statements for the ended 31st December 2020, presented in the Annual Report, the most appropriate accounting policies have been used, applied consistently and adequately disclosed. Reasonable and prudent judgements have been made where necessary in order to ensure the proper reflection of the form and substance of transaction in the process of preparing Financial Statements.

The Financial Statements for the year ended 31st December 2020 are in conformity with the requirements of the Pradeshiya Sanwardana Bank Act No. 41 of 2008, Banking Act No. 30 of 1988 and amendments thereto, Sri Lanka Accounting Standards and other statutory / regulatory requirements. These Financial Statements reflects true and fair view of the state of affairs of the bank as at 31st December 2020.

GOING CONCERN

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

INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE

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

Emphasising inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls. A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on pages 101 and 102 of the Annual Report.

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

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

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on page 90 and 95 respectively of the Annual Report.

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

COMPLIANCE

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

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

By order of the Board'



Secretary to the Board

25th June 2021

Auditor General's report on the Statement of Internal Control



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

} BAF/F/RDB/IC/2020

ඔබේ අංකය
உமது இல.
Your No.

}

දිනය
திகதி
Date

} 25 June 2021

The Chairman,
Pradeshiya Sanwardana Bank.

ASSURANCE REPORT OF THE AUDITOR GENERAL TO THE BOARD OF DIRECTORS ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OF PRADESHIYA SANWARDANA BANK

INTRODUCTION

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") of Pradeshiya Sanwardana Bank included in the annual report for the year ended 31 December 2020.

MANAGEMENT'S RESPONSIBILITY

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

MY RESPONSIBILITY AND COMPLIANCE WITH SLSAE 3050 (REVISED)

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

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



Auditor General's report on the Statement of Internal Control



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

SUMMARY OF WORK PERFORMED

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

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

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

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

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

CONCLUSION

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


W.P.C. Wickramaratne
Auditor General

Directors' Statement on Internal Control over Financial Reporting

REQUIREMENT

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

RESPONSIBILITY

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

BOARD REVIEW PROCESS

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

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

KEY FEATURES OF THE PROCESS

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

- Board sub committees of Audit, Credit and Integrated Risk Management have been established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Board has approved an Operational Manual in related to the Financial and other controls of the Bank in its all transactions. The procedures laid down in the manual have been communicated to all members of the staff.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report.

The Annual Audit Plan is reviewed and approved by the Audit Committee. Findings of the Internal Audit are submitted to the Audit Committee for review at the periodic meetings.

- The Audit Committee of the Bank review internal control issues identified by the Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

Directors’ Statement on Internal Control over Financial Reporting

- The bank adopted the new Sri Lanka Accounting standards SLFRS – 09, Financial Instruments in 2018 and SLFRS -16, leases in 2019. The process and procedures initially applied to adopt the aforementioned accounting standards to be further strengthened based on the feedback from external Auditors, regulators and the Board Audit Committee. The bank will continue to further strengthen the process on impairment of Loans and Advances, Financial statement disclosures and Risk Management.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors’ statement on internal control for the year ended 31st December 2020 and are supposed to report to the Board whether anything has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board review of the design and effectiveness of the internal control system of the Bank.


Chairman – Audit Committee


Director


Director

3rd May 2021

**Creating Futures and
Reaching New Heights**



Financial Reports

Auditor General's Report



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My No. Your No. Date

Chairman
Pradeshiya Sanwardana Bank

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS AND OTHER LEGAL AND REGULATORY REQUIREMENTS OF THE PRADESHIYA SANWARDANA BANK FOR THE YEAR ENDED 31 DECEMBER 2020 IN TERMS OF SECTION 12 OF THE NATIONAL AUDIT ACT, NO. 19 OF 2018.

1. FINANCIAL STATEMENTS

1.1 Opinion

The audit of the Financial Statements of the Pradeshiya Sanwardana Bank ("Bank") for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Income Statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

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

Emphasis of Matter

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



1.2 Basis for Opinion

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

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

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

My opinion on the Financial Statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the Financial Statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

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

1.4 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor General’s report



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

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

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

1.5 Auditor’s Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Bank as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The Financial Statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The Financial Statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Auditor General's report



2.2 BASED ON THE PROCEDURES PERFORMED AND EVIDENCE OBTAINED WERE LIMITED TO MATTERS THAT ARE MATERIAL, NOTHING HAS COME TO MY ATTENTION;

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

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

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

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

W.P.C. Wickramaratne
Auditor General

Income Statement

For the year ended 31 December	Note	2020 LKR	2019 LKR
Gross income	5	24,354,246,869	27,507,821,054
Interest income		23,182,459,141	26,357,071,298
Interest expenses		(12,294,380,832)	(13,903,881,276)
Net interest income	6	10,888,078,309	12,453,190,022
Fee and commission income		1,143,097,671	1,134,421,657
Fee and commission expenses		(271,935,223)	(278,304,299)
Net fee and commission income	7	871,162,448	856,117,358
Net trading gain/(loss)	8	23,135,814	4,757,039
Other operating income (net)	9	5,554,243	11,571,062
Total operating income		11,787,930,814	13,325,635,480
Impairment charges	10	(2,010,929,062)	(2,408,748,853)
Net operating income		9,777,001,752	10,916,886,627
Less-Operating expenses			
Personnel expenses	11	(5,983,362,037)	(5,931,625,972)
Depreciation and amortization expenses		(616,792,758)	(617,322,679)
Other expenses	12	(1,115,987,925)	(1,407,680,268)
Operating profit before value added tax (VAT)		2,060,859,032	2,960,257,709
Taxes on financial services & DRL	13	(1,047,410,630)	(1,738,097,299)
Profit before tax		1,013,448,401	1,222,160,409
Tax expenses	14	(609,412,349)	(723,565,878)
Profit for the year		404,036,052	498,594,531
Earnings per share			
Earnings per share : Basic	15	0.74	0.91

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related Notes, which form a part of the Financial Statements of the Bank set out on pages 114 to 204. The Report of the Auditors is given on page 104.

Statement of Comprehensive Income

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

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 114 to 204. The Report of the Auditors is given on page 104.

Statement of Financial Position

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

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 114 to 204. The Report of the Auditors is given on page 104.

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



P.S. Edirisuriya
Chief Financial Officer

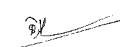


R.M. Damitha Kumari
General Manager/CEO (Actg.)

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



Chairman/Director



Director

14 June 2021
Colombo

Statement of Cash Flows

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

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 114 to 204. The Report of the Auditors is given on page 104.

Statement of Changes in Equity

For the year ended 31 December	Stated Capital	Statutory Reserve Fund	Special Reserve Fund	General Reserve Fund	Retained Earnings	Total
	Note 34	Note 35	Note 37	Note 37	Note 36	
	LKR	LKR	LKR	LKR	LKR	LKR
Balance as at 01st January 2019	8,047,229,930	717,331,468	571,721,796	3,057,925,624	2,315,905,812	14,710,114,630
Total comprehensive income for the year						
Profit for the year	-	-	-	-	498,594,531	498,594,531
Other comprehensive income	-	-	-	-	(80,468,366)	(80,468,366)
Total comprehensive income for the year	-	-	-	-	418,126,165	418,126,165
Transactions with equity holders, recognized directly in equity	-	-	-	-	-	-
Issued stated capital	-	-	-	-	-	-
Dividend paid					(193,546,847)	(193,546,847)
Transferred to statutory reserve fund	-	24,929,727	-	-	(24,929,727)	-
Transferred to special reserve fund	-	-	24,929,727	-	(24,929,727)	-
Transferred to general reserve fund	-	-	-	99,718,906	(99,718,906)	-
Excess from merger (Note 23)	-	-	-	-	30,627,630	30,627,630
Transactions with equity holders, recognized directly in equity	-	24,929,727	24,929,727	99,718,906	(312,497,577)	(162,919,217)
Balance as at 31 December 2019	8,047,229,930	742,261,195	596,651,523	3,157,644,530	2,421,534,400	14,965,321,578
Balance as at 01 January 2020	8,047,229,930	742,261,195	596,651,523	3,157,644,530	2,421,534,400	14,965,321,578
Total comprehensive income for the year						-
Profit for the year	-	-	-	-	404,036,052	404,036,052
Other comprehensive income	-	-	-	-	(255,040,689)	(255,040,689)
Total comprehensive income for the year	-	-	-	-	148,995,363	148,995,363
Transactions with equity holders, recognized directly in equity						-
Issued stated capital	-	-	-	-	-	-
Dividend paid					-	-
Transferred to statutory reserve fund	-	20,201,803	-	-	(20,201,803)	-
Transferred to special reserve fund	-	-	20,201,803	-	(20,201,803)	-
Transferred to general reserve fund	-	-	-	80,807,210	(80,807,210)	-
Transactions with equity holders, recognized directly in equity	-	20,201,803	20,201,803	80,807,210	(121,210,816)	-
Balance as at 31 December 2020	8,047,229,930	762,462,998	616,853,326	3,238,451,740	2,449,318,947	15,114,316,941

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 114 to 204. The Report of the Auditors is given on page 104.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 GENERAL

Pradeshia 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 Pradeshia Sanwardana Bank. The Bank was established as a statutory body under the Pradeshia Sanwardana Bank Act No.41 of 2008. The registered office of the Bank is located at No 933, Kandy Road, Wedamulla, Kelaniya.

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

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

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATION

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

1.3 DIRECTOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and presentation of these Financial Statements of the Bank, in compliance with provisions of the Pradeshia Sanwardana Banking Act No: 41 of 2008 and its amendments, Banking Act No.30 of 1988 and its amendments thereto and Sri Lanka Accounting Standards.

1.4 APPROVAL OF FINANCIAL STATEMENTS BY BOARD OF DIRECTORS

The Financial Statements of the Bank for the year ended 31 December 2020 were authorized for issue by the Board of Directors on 14 June 2021.

BASIS OF PREPARATION

2.1 BASIS OF MEASUREMENT

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

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

2.1.1 Changes in accounting policies and disclosures

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

SLFRS 16 - Leases

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

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

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

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

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

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

Leases previously accounted as operating leases

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

The Bank also applied the available practical expedients wherein it:

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

IFRIC 23 - Uncertainty over income tax treatment

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

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

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

Notes to the Financial Statements

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

Except for the changes mentioned above, the Bank has consistently applied the accounting policies for all periods presented in these Financial Statements.

Amendments to LKAS 1 and LKAS 8: Definition of material

Amendments to LKAS 1 "Presentation of Financial Statements" and LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Bank's Financial Statements.

2.1.2 Business combinations under common control

Business combinations between entities under common control are accounted for using pooling of interest method. Accordingly,

The assets and liabilities of the combining entities are reflected at their carrying amounts. No new goodwill is recognised as a result of the combination. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity.

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

2.2 STATEMENT OF COMPLIANCE

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

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.4 PRESENTATION OF FINANCIAL STATEMENTS

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

2.5 MATERIALITY & AGGREGATION

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

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

2.6 STATEMENT OF CASH FLOW

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

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

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

2.7 COMPARATIVE INFORMATION

The comparative information is classified wherever is necessary to conform to the current year's presentation.

2.8 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

2.8.1 Going Concern

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

Notes to the Financial Statements

2.8.2 Impairment Losses on Loans and Advances

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

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

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

2.8.3 Taxation

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

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

2.8.4 Defined Benefit Plans

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

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

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

2.8.5 Useful Lifetime of the Property, Plant and Equipment

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

2.8.6 Commitments and Contingencies

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

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

2.8.7 Fair value of Financial instruments

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

3. ACCOUNTING POLICY AND STANDARD INTERPRETATION

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1.1 Financial Instruments - Initial Recognition and Measurement

3.1.1.1 Date of recognition

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

3.1.1.2 Initial Measurement of Financial Instruments

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

3.1.1.3 Day 1 profit or loss

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

Notes to the Financial Statements

3.1.1.4 Classification and subsequent measurement of financial instruments

3.1.1.4.1 Financial assets

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

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

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

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

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

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

The details of these conditions are outlined below.

3.1.1.4.1.1(a) Business model assessment

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

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

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

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

3.1.1.4.1.1(b) *The SPPI test*

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

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

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

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

3.1.1.4.1.2 *Financial assets fair value through profit or loss*

Financial assets fair value through profit or loss comprise:

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

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

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

3.1.1.4.1.2 (a) *Financial investments - for trading*

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

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

3.1.1.4.1.2 (b) *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.

Notes to the Financial Statements

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

Investment in equity instruments that are neither trading financial assets recognised through profit or loss, nor contingent consideration recognised by the Bank in a business combination to which SLFRS 3 "Business Combination" applies, are measured at fair value through other comprehensive income, where an irrevocable election has been made by Management due to long term nature of investment. For portfolios where Management does not consider an irrevocable election of adopting fair value through other comprehensive income, by default such investments shall be measured at fair value through profit and loss.

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

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

3.1.1.4.2 **Financial liabilities**

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

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

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

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

3.1.1.4.2.2 *Financial liabilities at amortised cost*

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

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

This category consists of due to Banks, Due to other customers, and Debt issued and other borrowed fund.

3.1.1.5 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2020.

3.1.1.6 De-recognition of financial assets and liabilities

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

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

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

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

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

3.1.1.6.2 De-recognition other than for substantial modification

3.1.1.6.2(a) Financial assets

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

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

- The Bank has transferred its contractual rights to receive cash flows from the financial asset

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

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

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

Notes to the Financial Statements

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

A transfer only qualifies for de-recognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

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

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

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

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

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

3.1.1.6.2(b) *Financial liabilities*

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

3.1.1.7 **Overview of the ECL principles**

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

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

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

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

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

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

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

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

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

3.1.1.7.1 The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

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

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

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

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

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

Notes to the Financial Statements

The mechanics of the ECL method are summarized below:

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

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

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

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

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

3.1.1.7.2 Calculations of ECL for individually significant loans

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

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

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

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;

- The amount and timing of expected receipts and recoveries;
- The extent of other creditors' commitments ranking ahead of, or pari-passu with the Bank and the likelihood of other creditors continuing to support the Bank;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realizable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The ability of the borrower to obtain and make payments in the currency of the loan if not denominated in local currency; and
- The likely dividend available on liquidation or bankruptcy

3.1.1.7.3 Debt instruments measured at fair value through OCI

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

3.1.1.7.4 Purchased or originated credit impaired financial assets (POCI)

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

3.1.1.7.5 Forward looking information

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

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

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

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

3.1.1.7.6 Collateral valuation

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

3.1.1.7.7 Collateral repossessed

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

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

Notes to the Financial Statements

3.1.1.7.8 Write-offs

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

3.1.1.7.9 Forborne and modified loans

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

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

3.1.1.7.10 Foreclosed Properties

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

3.1.1.7.11 Offsetting Financial Instruments

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

3.1.1.8 Determination of fair value

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

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

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

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

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

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

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

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

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

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

3.1.2 Property, Plant and Equipment

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

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

The estimated useful lives are as follows:

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

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

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

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

3.1.3 Leasing

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

3.1.3.1 Finance Leases -Bank as a Lessee

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

Notes to the Financial Statements

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

3.1.3.2 Operating Leases (Before 1 January 2019)

Bank as a lessor

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

3.1.4 Intangible Assets

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

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial 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
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3.1.5 Impairment of Non-financial Assets

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

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

3.1.6 Financial Guarantees

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

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

3.1.7 Pension Benefits

3.1.7.1 Defined Benefit Pension Plan-Gratuity

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

3.1.7.2 Gratuity

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

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

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

Funding Arrangements: The Gratuity liability is not externally funded.

3.1.7.3 Defined Contribution Pension Plan

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

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

1. Employees' Provident Fund

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

2. Employees' Trust Fund

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

3.1.8 Provisions

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

3.1.9 Recognition of Income and Expenses

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

3.1.9.1 Interest and Similar Income and Expense

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

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

Notes to the Financial Statements

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

3.1.9.2 Fee and Commission Income

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

3.1.9.3 Fee Income Earned from Services that are provided over a certain period of time

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

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

3.1.9.4 Taxation

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

3.1.9.5 Current Tax

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

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

3.1.9.6 Deferred Tax

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

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

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

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

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

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

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

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

3.1.9.7 VAT on Financial Services

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

3.1.9.8 Nation Building Tax (NBT) on Financial Service

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

3.1.9.9 Withholding Tax (WHT) on Dividends

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

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

3.1.9.10 Economic Service Charge (ESC)

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

3.1.9.11 Debts Repayments Levy (DRL)

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

3.1.9.12 Crop Insurance Levy (CIL)

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

3.1.10 Dividends on Ordinary Shares

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

Notes to the Financial Statements

3.1.11 Earnings per Share (EPS)

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

3.1.12 SLFRS 15 – Revenue from Contracts with Customers

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

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

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

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

The following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2020. The Bank intends to adopt these new and amended standards, if applicable, when they become effective.

SLFRS 17- INSURANCE CONTRACTS

SLFRS 17 "Insurance Contracts", is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 "Insurance contracts". The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first applies SLFRS 17. This standard is not applicable to the Bank.

5. GROSS INCOME

For the year ended 31 December	2020	2019
	LKR	LKR
Interest income (Note 6.1)	23,182,459,141	26,357,071,298
Fee and commission income (Note 7)	1,143,097,671	1,134,421,656
Net trading gain/(loss) (Note 8)	23,135,814	4,757,039
Other operating income (Note 9)	5,554,243	11,571,062
Total Gross Income	24,354,246,869	27,507,821,054

6. NET INTEREST INCOME

6.1 INTEREST INCOME

For the year ended 31 December	2020	2019
	LKR	LKR
Placements with banks	532,551,255	735,270,427
Financial assets at amortised cost		
Loans and receivables from other customers	19,130,733,803	21,735,964,322
Debt & other instruments	3,519,174,083	3,885,836,549
Total interest income	23,182,459,141	26,357,071,298

6.2 INTEREST EXPENSES

For the year ended 31 December	2020	2019
	LKR	LKR
Due to banks	(1,226,169,605)	(1,308,319,793)
Due to other customers	(10,949,016,609)	(12,493,387,754)
Interest expense on lease liabilities	(119,194,618)	(102,173,728)
Total interest expenses	(12,294,380,832)	(13,903,881,276)
Net interest income	10,888,078,309	12,453,190,022

Notes to the Financial Statements

7. NET FEE AND COMMISSION INCOME

For the year ended 31 December	2020	2019
	LKR	LKR
Fee and commission income	1,143,097,671	1,134,421,656
Fee and commission expenses	(271,935,223)	(278,304,299)
Net fee and commission income	871,162,448	856,117,357
Comprising		
Loans	850,809,944	852,512,689
Trade and remittances	6,844,618	7,630,593
Deposits	(251,912,550)	(253,121,115)
Others	265,420,436	249,095,191
Net fee and commission income	871,162,448	856,117,357

8. NET TRADING GAIN/(LOSS)

For the year ended 31 December	2020	2019
	LKR	LKR
Net mark to market loss - Equity securities	22,160	(7,400)
Financial liabilities designated at fair value through profit or loss	23,102,434	370,699
Dividend income	11,220	4,393,740
Total	23,135,814	4,757,039

9. OTHER OPERATING INCOME (NET)

For the year ended 31 December	2020	2019
	LKR	LKR
Gain/(Loss) on sale of property, plant and equipment	(349,129)	3,811,675
ATM Income	5,719,052	7,433,448
Recoveries of NPL loans (Written Off)	184,320	325,939
Other operating income (net)	5,554,243	11,571,062

10. IMPAIRMENT CHARGES

For the year ended 31 December	2020	2019
	LKR	LKR
Placement with Banks (Note 18.1)	32,450	32,429
Loans and receivables from other customer		
Collective impairment (Note 20.2)	(1,093,943,485)	(1,076,946,691)
Individual impairment (Note 20.2)	(918,981,343)	(1,324,690,485)
Financial assets at amortised cost - Debt & other instruments		
Debentuers (Note 21.1.2)	(8,481)	(1,200)
Investment in Fixed Deposit (Note 21.2.2)	5,601,260	(6,668,755)
Credit related commitment and contingencies	147,522	(474,152)
Other Assets Impairment	(3,776,986)	-
Net impairment (charge) / reversal for loans and other losses	(2,010,929,062)	(2,408,748,853)

11. PERSONNEL EXPENSES

For the year ended 31 December	2020	2019
	LKR	LKR
Salary and bonus	3,901,689,870	3,670,368,673
Contributions to EPF/ETF	608,545,771	587,605,614
Contributions to defined benefit plans	389,587,045	323,313,062
Others	1,083,539,351	1,350,338,623
Total	5,983,362,037	5,931,625,972

Notes to the Financial Statements

12. OTHER EXPENSES

For the year ended 31 December	2020	2019
	LKR	LKR
Directors' emoluments	4,014,000	3,683,748
Auditors' remunerations	2,800,000	4,693,515
Professional and legal expenses	7,490,055	14,954,312
Office administration and establishment expenses	812,296,503	1,104,581,162
Computerization expenses	140,863,838	122,361,980
Business tax expenses	956,266	2,715,109
Other commission paid	147,460	74,325
Deposit insurance premium	136,004,590	145,699,228
Crop insurance levy	8,565,973	4,893,954
Staff security deposits interest	2,849,238	4,010,435
Capital loss on pawning advance	-	12,501
Total	1,115,987,925	1,407,680,268

13. TAXES ON FINANCIAL SERVICES AND DEBT REPAYMENT LEVY

For the year ended 31 December	2020	2019
	LKR	LKR
Nation building tax	-	123,625,704
Value added tax	1,047,410,630	1,012,948,950
Debt repayment levy	-	601,522,646
Total	1,047,410,630	1,738,097,299

14. TAX EXPENSES

For the year ended 31 December	2020	2019
	LKR	LKR
Income taxation		
Taxation based on profits for the year (Note 14.1)	723,625,797	890,648,620
(Over)/ Under provision in respect of 2019/2020 year	12,651,872	-
Charge/(Reversal) of Temporary Differences (Note 26.2)	(126,865,320)	(167,082,742)
Total	609,412,349	723,565,878

14.1 RECONCILIATION OF TAX EXPENSES

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

Notes to the Financial Statements

15. EARNINGS PER SHARE

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

For the year ended 31 December	2020	2019
	LKR	LKR
Net profit attributable to ordinary equity holders of the Bank	404,036,052	498,594,531
Net profit attributable to ordinary equity holders	404,036,052	498,594,531

For the year ended 31 December	2020	2019
	Numbers	Numbers
Weighted average number of ordinary shares in issue	545,107,049	545,107,049
Basic earnings per ordinary share	0.74	0.91

16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

a. Bank - Current year (2020)

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

b. Bank - Current year (2020)

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

a. Bank - Previous year (2019)

As at 31 December	Note	FVTPL	AC	FVOCI	Total
		LKR	LKR	LKR	LKR
ASSETS					
Cash and cash equivalent	17	-	2,750,187,219	-	2,750,187,219
Placements with banks	18	-	9,798,242,492	-	9,798,242,492
Financial assets held-for-trading/Equity Instruments at fair value through profit or loss	19	123,000	-	-	123,000
Financial assets at amortised cost - Loans and receivables from other customers	20	-	136,205,641,441	-	136,205,641,441
Financial assets at amortised cost - Debt & other instruments	21	-	45,664,745,400	-	45,664,745,400
Equity Instruments at fair value through other comprehensive income	22	-	-	2,289,919	2,289,919
Other financial assets	27	-	1,633,841,628	-	1,633,841,628
Total financial assets		123,000	196,052,658,180	2,289,919	196,055,071,099

b. Bank - Previous year (2020)

As at 31 December	Note	Amortised cost	Total
		LKR	LKR
LIABILITIES			
Due to banks	28	22,050,009,005	22,050,009,005
Due to other customers	29	149,599,829,047	149,599,829,047
Debt issued and other borrowed funds	30	4,707,852,534	4,707,852,534
Other liabilities	32	4,954,270,654	4,954,270,654
Total financial liabilities		181,311,961,240	181,311,961,240

Notes to the Financial Statements

17. CASH AND CASH EQUIVALENT

As at 31 December	2020	2019
	LKR	LKR
Cash in hand	770,872,112	627,224,228
Other bank balances	2,987,986,029	2,122,962,990
Total	3,758,858,141	2,750,187,219

18. PLACEMENTS WITH BANKS

As at 31 December	2020	2019
	LKR	LKR
Money market placements	8,436,353,244	9,798,274,942
Less : Impairment for expected credit losses (Note 18.1)	-	(32,450)
Total	8,436,353,244	9,798,242,492

18.1 ANALYSIS OF PLACEMENTS WITH BANKS BASED ON EXPOSURE TO CREDIT RISK

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Money market placements	8,436,353,244	-	-	8,436,353,244
Impairment for expected credit losses (18.2)	-	-	-	-
	8,436,353,244	-	-	8,436,353,244

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
	LKR	LKR	LKR	LKR
Money market placements	9,798,274,942	-	-	9,798,274,942
Impairment for expected credit losses (18.2)	(32,450)	-	-	(32,450)
	9,798,242,492	-	-	9,798,242,492

18.2 IMPAIRMENT FOR EXPECTED CREDIT LOSSES - PLACEMENTS WITH BANKS

For the year ended 31 December	2020	2019
	LKR	LKR
Balance as at 1 January	32,450	64,879
Net reversal for the year (Note 10)	(32,450)	(32,429)
	-	32,450

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020			2019		
	No. of Shares	Cost of Investment	Market Value	No. of Shares	Cost of Investment	Market Value
		LKR	LKR		LKR	LKR
People's Merchant Bank PLC	600	6,600	5,160	600	6,600	6,000
Seylan Development PLC	10,000	109,000	140,000	10,000	109,000	117,000
	10,600	115,600	145,160	10,600	115,600	123,000

19.1 MOVEMENT DURING THE YEAR

As at 31 December	2020	2019
	LKR	LKR
Balance as at 1 January	123,000	115,600
Change in fair value during the year	22,160	7,400
Balance as at 31 December	145,160	123,000

20. LOANS AND RECEIVABLES FROM OTHER CUSTOMERS

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

Notes to the Financial Statements

20.1 ANALYSIS

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

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

	Individual	Collective	Total
Balance as at 1 January 2019 (SLFRS 9)	318,437,304	3,179,680,360	3,498,117,664
Net charge to profit or loss	1,324,690,485	1,076,946,691	2,401,637,175
Other movements / Write off	-	(33,815,719)	(33,815,719)
Merged of LDB balances as at 01/04/2019	-	1,801,375,047	1,801,375,047
Balance as at 31 December 2019	1,643,127,789	6,024,186,378	7,667,314,167
Net charge to profit or loss	918,981,343	1,093,943,485	2,012,924,828
Other movements / Write off	-	(1,562,972)	(1,562,972)
	2,562,109,132	7,116,566,892	9,678,676,023
Collective Impairment not recognized	-	616,853,326	616,853,326
Balance as at 31 December 2020	2,562,109,132	7,733,420,218	10,295,529,350

Total Impairment

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

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

20.3 MOVEMENT IN IMPAIRMENT FOR EXPECTED CREDIT LOSSES BASED ON EXPOSURE TO CREDIT RISK

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

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

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

Notes to the Financial Statements

20.4 ANALYSIS OF LOANS AND RECEIVABLES FROM OTHER CUSTOMERS BASED ON EXPOSURE TO CREDIT RISK

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Individually impaired loans	-	-	6,813,320,247	6,813,320,247
Loans subjected to collective impairment				
Term Loan Other	4,234,623,914	859,822,907	670,313,450	5,764,760,271
Term Loan Industrial	9,466,658,390	3,364,330,703	3,791,446,814	16,622,435,908
Term Loan Commercial	16,056,332,983	4,285,764,437	4,565,938,452	24,908,035,872
Term Loan Agriculture	16,621,164,808	3,272,720,095	3,406,065,401	23,299,950,303
Term Loan Housing	28,575,780,220	5,997,747,637	4,891,799,882	39,465,327,739
Refinance	16,174,528,457	4,555,496,407	2,479,226,222	23,209,251,087
Liyaisura	206,746	65,801	41,347,889	41,620,436
Pawning	14,557,566,695	752,431,314	102,553,168	15,412,551,176
Leasing	512,945,924	152,216,453	166,865,500	832,027,877
Staff loans	4,099,302,853	-	23,285,853	4,122,588,706
Loans Against Deposits	6,481,771,642	-	-	6,481,771,642
SME	-	-	125,408,455	125,408,455
Gross loans & receivable from other customers	116,780,882,633	23,240,595,755	27,077,571,333	167,099,049,722
Impairment for expected credit losses (20.3)	(1,542,211,585)	(1,263,209,626)	(6,873,254,812)	(9,678,676,023)
Net loans & receivable from other customers (before zero rated loans and staff loans adjustments)	115,238,671,048	21,977,386,129	20,204,316,521	157,420,373,698

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

20.5 LEASE RENTALS RECEIVABLE

As at 31 December	2020	2019
	LKR	LKR
Gross lease rentals receivable		
Less than 1 year	245,011,489	583,553,978
More than 1 year	856,626,316	445,417,702
Total Lease rentals receivable	1,101,637,804	1,028,971,680
Less : Unearned interest income	(140,363,918)	(140,137,588)
Gross lease rentals receivable	961,273,886	888,834,092
Less: Provision for impairment losses	(124,092,019)	(314,014,386)
Net lease rentals receivable	837,181,867	574,819,706

Notes to the Financial Statements

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

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

21.1 DEBENTURES - QUOTED

	2020			2019		
	No. of Debentures	Cost of Investment	Amortised Cost	No. of Debentures	Cost of Investment	Amortised Cost
		LKR	LKR		LKR	LKR
Commercial Bank of Ceylon PLC	5,000,000	500,000,000	516,934,932	5,000,000	500,000,000	516,934,932
DFCC	5,000,000	500,000,000	508,630,137			
Total	5,000,000	500,000,000	1,025,565,069	5,000,000	500,000,000	516,934,932

21.1.1 Analysis of Debentures based on Exposure to Credit Risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
Debentures - Quoted	1,025,565,069	-	-	1,025,565,069
Impairment for expected credit losses (21.1.2)	(18,501)	-	-	(18,501)
	1,025,546,568	-	-	1,025,546,568

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Debentures - Quoted	516,934,932	-	-	516,934,932
Impairment for expected credit losses (21.1.2)	(10,020)	-	-	(10,020)
	516,924,912	-	-	516,924,912

21.1.2 Impairment for expected credit losses - Debentures quoted

As at 31 December	2020	2019
	LKR	LKR
Balance as at 1 January	10,020	8,820
Net charge/(reversal) for the year	8,481	1,200
	18,501	10,020

21.2 INVESTMENT IN FIXED DEPOSITS

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

21.2.1 Analysis of investment in fixed deposits based on exposure to credit risk

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

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
Investment in fixed deposit	42,492,391,559	-	-	42,492,391,559
Impairment for expected credit losses (21.2.2)	(7,776,071)	-	-	(7,776,071)
	42,484,615,488	-	-	42,484,615,488

Notes to the Financial Statements

21.2.2 Impairment for expected credit losses – Investment in fixed deposits

As at 31 December	2020	2019
	LKR	LKR
Balance as at 1 January	7,776,071	1,107,316
Net charge/(reversal) for the year	(5,601,260)	6,668,755
	2,174,811	7,776,071

22. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	2020	2019
	LKR	LKR
Unquoted equity securities (22.1)	2,289,919	2,289,919
	2,289,919	2,289,919

22.1 UNQUOTED EQUITY SECURITIES

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

23. MERGER OF PRADESHIYA SANWARDANA BANK (PSB) AND LANKAPUTHRA DEVELOPMENT BANK LIMITED (LDB)

As proposed in the Government Budget of the year 2016 thereby proposing Lankaputhra Development Bank Limited (LDB) to be merged with Pradeshiya Sanwardana Bank (PSB) and upon granting of necessary approvals from relevant authorities including Cabinet of Ministers and the General Treasury, being the only shareholder, PSB issued new shares in favour of General Treasury to the value of LKR 4,176 Mn effective on 31/12/2018 for the pending elimination of the investment in the share capital of LDB held by the General Treasury. Since, the purpose of this transaction was to facilitate the merger between PSB and LDB, the General Treasury did not expect PSB to maintain a parent -subsidiary relationship with LDB. Along with the said purpose, the Secretary to the Treasury has granted the approval on 10th January 2019, to go ahead with the merger of LDB with PSB at a purchase consideration of LKR4,176 Mn subject to any further upward revisions depend on future circumstances.

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

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

As at 31 December	01-Apr-19
	LKR
Assets	
Cash and cash equivalents	58,546,614
Investment securities	6,350,226,459
Advances and other loans	1,786,699,583
Trade and other receivables	222,041,924
Property, plant and equipment	51,976,175
Deferred tax asset	30,627,630
Total	8,500,118,385
Liabilities	
Deposit liabilities	276,021,101
Interest bearing loans and borrowings	3,017,543,455
Provision for taxation	121,269,000
Trade and other payables	123,014,603
Treasury Finance - Other	403,134,631
Refinance loans payable	60,829,000
Retirement benefit obligations	29,641,368
Contingent provisioning	225,000,000
Total	4,256,453,158
Carrying amount of identifiable net assets acquired	4,243,665,227
Results of the merger of above entities are as follows;	
Value of consideration paid/investment	4,176,292,930
Carrying amount of identifiable net assets merged	(4,243,665,227)
Resulting excess	(67,372,297)

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

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

Notes to the Financial Statements

24. PROPERTY, PLANT AND EQUIPMENT

24.1 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings LKR	Leasehold properties LKR	Computer Hardware LKR
2020 (Current year) Cost			
Opening balance at 01/01/2020	635,276,706	6,540,518	725,204,656
Additions	-	-	5,259,020
Disposals	-	-	(19,827,862)
Written off	(185,808)	-	-
Transfers during the Year	-	(6,540,518)	-
Reclassification Adjustments	-	-	(108,445)
Closing balance at 31/12/2020	635,090,898	-	710,527,368
Finance Lease			
Opening balance at 01/01/2020	-	-	-
Additions	-	-	-
Transfer	-	-	-
Closing balance at 31/12/2020	-	-	-
(Less): Accumulated depreciation			
Opening balance at 01/01/2020	160,113,172	3,869,817	526,354,256
Charge for the year	23,353,579	327,026	68,300,575
Disposals	-	-	(19,827,386)
Written off	-	-	-
Transfers during the Year	-	(2,698,000)	-
Reclassification Adjustments	1,498,842	(1,498,842)	1,897
Closing balance at 31/12/2020	184,965,594	-	574,829,342
Finance Lease			
Opening balance at 01/01/2020	-	-	-
Charge for the year	-	-	-
Transfers during the Year	-	-	-
Closing balance at 31/12/2020	-	-	-
(Less): Impairment charges	-	-	-
Net book value at 31/12/2020	450,125,304	-	135,698,026

2020					
Office Equipment, Furniture and Fittings	Motor Vehicles	Work-In- Progress	Partition and Fittings	Other	Total
LKR	LKR	LKR	LKR	LKR	LKR
1,327,577,095	409,392,411	1,859,276	385,201,289	819,424	3,491,871,376
21,034,963	19,000	3,845,110	15,696,201	-	45,854,295
(8,735,854)	(10,930)	-	(7,069,389)	-	(35,644,035)
-	-	(116,645)	(199,567)	-	(502,020)
-	-	-	-	-	(6,540,518)
380,500	-	(431,675)	-	-	(159,620)
1,340,256,705	409,400,481	5,156,066	393,628,535	819,424	3,494,879,478
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
941,786,408	381,731,899	-	249,595,931	-	2,263,451,482
133,243,500	22,866,299	-	49,949,300	-	298,040,279
(8,732,114)	(10,928)	-	(5,904,265)	-	(34,474,692)
-	-	-	-	-	-
-	-	-	-	-	(2,698,000)
248,157	-	-	(228,300)	-	21,754
1,066,545,951	404,587,270	-	293,412,666	-	2,524,340,823
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
273,710,754	4,813,211	5,156,066	100,215,869	819,424	970,538,655

Notes to the Financial Statements

	Land and Buildings	Computer Hardware	Office Equipment, Furniture and Fittings
	LKR	LKR	LKR
2019 (Previous year) Cost			
Opening balance at 01/01/2019	535,458,100	569,273,145	1,166,453,070
Merged of LDB balances as at 01.04.2019	33,034,049	74,690,361	90,748,602
Additions	9,054,154	84,775,603	80,616,960
Disposals	-	(3,534,454)	(10,369,704)
Write off	-	-	(403,581)
Transfers during the Year	64,270,921	-	-
Reclassification Adjustments	-	-	531,750
Closing balance at 31/12/2019	641,817,225	725,204,656	1,327,577,095
Finance Lease			
Opening balance at 01/01/2019	-	-	-
Additions	-	-	-
Transfer	-	-	-
Closing balance at 31/12/2019	-	-	-
(Less): Accumulated depreciation			
Opening balance at 01/01/2019	126,018,162	402,426,641	745,865,596
Merged of LDB balances as at 01.04.2019	13,887,672	60,302,792	69,714,923
Charge for the year	24,077,155	67,148,351	136,156,906
Disposals	-	(3,523,528)	(9,951,017)
Transfers during the Year	-	-	-
Reclassification Adjustments	-	-	-
Closing balance at 31/12/2019	163,982,989	526,354,256	941,786,408
Finance Lease			
Opening balance at 01/01/2019	-	-	-
Charge for the year	-	-	-
Transfers during the Year	-	-	-
Closing balance at 31/12/2019	-	-	-
(Less): Impairment charges	-	-	-
Net book value at 31/12/2019	477,834,236	198,850,400	385,790,687

2019					
	Motor Vehicles	Work-In- Progress	Partition and Fittings	Other	Total
	LKR	LKR	LKR	LKR	LKR
	273,290,358	65,310,013	323,427,662	-	2,933,212,347
	34,159,860	-	19,815,041	819,424	253,267,338
	-	820,184	42,587,800	-	217,854,701
	(1,982,206)	-	(91,121)	-	(15,977,486)
	-	-	-	-	(403,581)
	103,924,400	(64,270,921)	-	-	103,924,400
	-	-	(538,092)	-	(6,342)
	409,392,411	1,859,276	385,201,289	819,424	3,491,871,377
	103,924,400	-	-	-	103,924,400
	-	-	-	-	-
	(103,924,400)	-	-	-	(103,924,400)
	-	-	-	-	-
	217,479,645	-	167,973,678	-	1,659,763,721
	32,621,194	-	10,325,452	-	186,852,032
	29,677,681	-	71,391,618	-	328,451,710
	(1,971,005)	-	(89,426)	-	(15,534,976)
	103,924,385	-	-	-	103,924,385
	-	-	(5,391)	-	(5,391)
	381,731,899	-	249,595,931	-	2,263,451,483
	101,587,422	-	-	-	101,587,422
	2,336,963	-	-	-	2,336,963
	(103,924,385)	-	-	-	(103,924,385)
	-	-	-	-	-
	-	-	-	-	-
	27,660,512	1,859,276	135,605,359	819,424	1,228,419,894

Notes to the Financial Statements

24.2 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

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

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

24.3 TITLE RESTRICTIONS ON PROPERTY, PLANT AND EQUIPMENT

There were no title restrictions on property, plant and equipment of the Bank as at the reporting date.

24.4 PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY FOR LIABILITIES

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

24.5 COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT AND EQUIPMENT

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

24.6 TEMPORALLY IDLE PROPERTY, PLANT AND EQUIPMENT

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

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

Name of Premises and Address	Extent (Perches)	Building (Square Feet)	Date of Valuation	Cost of Land LKR	Cost of Building LKR	Total Value LKR	Accumulated Depreciation LKR	Written Down Value LKR
H/O - No. 933, Kandy Road, Wedamulla, Kelaniya	24.0	5,375	March 5, 2012	80,419,000	139,371,952	219,790,952	49,810,684	169,980,269
Central Province								
Matale - No. 62, Main Street, Matale	4.8	2,280	December 26, 2014	-	11,915,631	11,915,631	3,582,851	8,332,780
Dambulla - No. 734, Anuradhapura Road, Dambulla	8.2	2,210	December 18, 2003	565,000	2,286,908	2,851,908	2,086,803	765,105
Wilgamuwa - Hettipola, Wilgamuwa	38.0	1,740	August 24, 2009	-	7,581,277	7,581,277	4,902,077	2,679,200
Agarapathana - No. 158, Hoolbrook, Agarapathana	10.8	1,598	August 17, 2012	540,000	720,000	1,260,000	672,000	588,000
Naula - 26, Dambulla Road, Naula	20.0	1,640	February 25, 1998	2,471,252	8,600,539	11,071,791	2,887,550	8,184,241
Laggala - New Town - Laggala	40.0	3,261	-	-	23,565,250	23,565,250	1,872,308	21,692,942
North Central Province								
Mihinthale - Trincomalee Road, Mihinthale	20.0	6,359	December 30, 2005	-	8,859,427	8,859,427	663,640.01	2,223,027
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	March 19, 2013	-	16,192,223	16,192,223	6,476,889	9,715,334
Galenbindunuwewa - Pola Road, Galenbindunuwewa	70.0	1,687	March 14, 2013	-	3,124,975	3,124,975	1,903,328	1,221,647
Medirigiriya - Main Street, Madirigiriya	40.0	-	December 31, 2007	-	9,643,650	9,643,650	6,277,016	3,366,634
Siripura - New Town, Siripura	30.0	4,973	February 24, 2016	-	22,291,625	22,291,625	5,408,460	16,883,165
Thirappane - Kandy Road, Thirappane	65.4	8,030	December 8, 2016	379,869.25	46,150,602	46,530,471	5,350,210	41,180,261
Anuradhapura - No. 343, Mosque Road, Stage 01, Anuradhapura	-	-	-	-	125,000	125,000	12,500	112,500
North Western Province								
Mawathagama - Kandy Road, Mawathagama	21.5	-	March 3, 2016	10,801,311	-	10,801,311	-	10,801,311
Province Office Kurunegala - No. 155, Negombo Road, Kurunegala	14.0	8,484	December 29, 2004	-	18,200,366	18,200,366	9,729,752	8,470,614
Polpithigama - Kurunegala Road, Polpithigama	20.0	2,784	December 30, 2014	-	17,504,901	17,504,901	5,324,407	12,180,494
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	December 30, 2014	-	25,188,128	25,188,128	7,471,285	17,716,843
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	March 25, 2003	-	5,792,157	5,792,157	3,235,455	2,556,702
Nattandiya - Marawila Road, Naththandiya	15.7	1,200	February 11, 2003	-	36,799,082	36,799,082	4,298,113	32,500,969

Notes to the Financial Statements

Name of Premises and Address	Extent (Perches)	Building (Square Feet)	Date of Valuation	Cost of Land LKR	Cost of Building LKR	Total Value LKR	Accumulated Depreciation LKR	Written Down Value LKR
Puttlam - Kurunegala Road, Puttlam	51.0	1,250	June 26, 2006	-	3,802,742	3,802,742	1,816,534	1,986,208
Wariyapola - No. 29/4, Adhikari Mawatha, Wariyapola	10.0	6,208	November 12, 2013	-	35,609,963	35,609,963	8,424,316	27,185,647
Southern Province								
Kekanadura - Weherahena Road, Kekanadura	12.0	1,704	May 10, 2004	1,418,000	1,194,535	2,612,535	955,355	1,657,180
Akmeemana - Ganegoda, Akmeemana	6.5	1,614	October 2, 1993	-	600,000	600,000	599,999	1
Galle - No. 301, Matara Road, Magalle, Galle	30.0	1,224	October 9, 1999	-	4,927,109	4,927,109	3,544,036	1,383,073
Katuwana - Uda Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001	1,320,000	7,406,958	8,726,958	5,923,875	2,803,083
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005	1,620,667	1,675,534	3,296,201	1,591,375	1,704,826
Uragasmanhandiya - Kosgoda Road, Uragasmanhandiya	20.0	1,940	April 10, 2012	-	13,354,618	13,354,618	5,826,638	7,527,980
Ambalantota - 139, Hambantota Road, Ambalantota	25.0	2,568	August 30, 2004	2,000,000	3,070,100	5,070,100	2,455,379	2,614,721
Agunakolapelessa - Ranna Road, Agunakolapelessa	12.0	2,371	August 27, 2001	-	3,470,348	3,470,348	2,352,749	1,117,599
District office Galle - No. 301, Matara Road, Magalle, Galle	30.0	2,000	October 8, 1999	1,750,000	4,884,716	6,634,716	3,629,372	3,005,344
Hambanthota - No. 01, Galwala Road, Hambantota	237.0	16,315	-	15,000,000	18,034,049	33,034,049	15,766,369	17,267,680
Uva Province						-	-	-
Girandurukotte - Development Centre, Girandurukotte	10.1	1,661	November 30, 2011	-	3,227,674.2	3,227,674	1,524,151	1,703,523
Monaragala District office - Monaragala Road, Buttala	34.0	1,706	October 22, 1999	-	3,162,263	3,162,263	1,467,356	1,694,907
Bandarawela Lease hold Premises	7.7	-	February 18, 2013	1,150,000	-	1,150,000	1,150,000	-
Sabaragamuwa Province								
Balangoda - No. 17, Rest House Approach Road, Balangoda	20.0	-	February 18, 2013	6,679,574	-	6,679,574	-	6,679,574
Eastern Province								
Swiss Village, Batticaloa	-	-	-	173,370	-	173,370	-	173,370
Ampara - Clock tower junction, front of bus stand, Ampara	-	-	-	468,550	-	468,550	-	468,550
Total				126,756,593	508,334,304	635,090,898	184,965,593	450,125,304

25. INTANGIBLE ASSETS

As at 31 December	2020	2019
	LKR	LKR
Computer software		
Opening balance as at 1 January	276,312,857	228,670,607
Merged of LDB balances at 01.04.2019	-	33,826,261
Additions	1,532,923	13,815,989
Closing balance as at 31 December	277,845,780	276,312,857
(Less): Amortisation		
Opening balance as at 1 January	230,956,513	167,882,888
Merged of LDB balances at 01.04.2019	-	31,621,185
Charge for the year	25,616,567	31,452,440
Closing balance as at 31 December	256,573,080	230,956,513
Net book value	21,272,699	45,356,343

25.1 RIGHT OF USE ASSETS

	2020		
	Building	Motor vehicles	Total
	LKR	LKR	LKR
Cost			
Balance as at 1 January 2020	1,058,318,802	51,945,918	1,110,264,720
Opening balance modifications - Prepayments	(1,377,599)	-	(1,377,599)
Opening balance modifications - Buildings	(59,803,752)	-	(59,803,752)
Additions and Improvements	88,980,848	-	88,980,848
Cost as at 31 December 2020	1,086,118,299	51,945,918	1,138,064,217
Accumulated Amortization			
Balance as at 1 January 2020	237,745,060	17,336,505	255,081,566
Charge for the period	266,667,589	17,336,505	284,004,094
Accumulated amortization as at 31 December 2020	504,412,649	34,673,010	539,085,659
Net book value as at 31 December 2020	581,705,650	17,272,907	598,978,557

Notes to the Financial Statements

	2019		
	Building	Motor vehicles	Total
	LKR	LKR	LKR

Cost

Balance as at 1 January 2019	-	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	946,598,134	51,945,918	998,544,052
Reclassification from prepayments	40,529,572	-	40,529,572
Additions and improvements	71,191,096	-	71,191,096
Cost as at 31 December 2019	1,058,318,802	51,945,918	1,110,264,720

Accumulated Amortization

Balance as at 1 January 2019	-	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	-	-	-
Charge for the period	237,745,060	17,336,505	255,081,566
Accumulated amortization as at 31 December 2019	237,745,060	17,336,505	255,081,566
Net book value as at 31 December 2019	820,573,742	34,609,413	855,183,154

25.1.1 Lease Liability

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

	2019		
	Building	Motor vehicles	Total
	LKR	LKR	LKR
Balance as at 1 January 2019	-	-	-
Effect of adoption of SLFRS 16 as at 1 January 2019	946,598,134	51,945,918	998,544,052
Additions	71,191,096	-	71,191,096
Accretion of interest	97,462,698	4,711,029	102,173,728
Payments	259,518,633	20,276,640	279,795,273
Balance as at 31 December 2019	855,733,295	36,380,307	892,113,602

25.1.2 Maturity Analysis of Lease Liability

As at 31 December	2020	2019
	LKR	LKR
As at 31 December	712,440,617	892,113,602
Less than 1 year	85,295,170	305,287,731
More than 1 year	627,145,448	586,825,871

25.1.3 The present value of operating lease commitments as at 1 January 2020 has been calculated using weighted average incremental borrowing rate of 7.26%.

26. DEFERRED TAX ASSETS/LIABILITIES

As at 31 December	2020	2019
	LKR	LKR
Deferred tax asset	(1,130,158,716)	(935,849,723)
Deferred tax liability	226,437,747	239,533,239
Net deferred tax (asset)/liability	(903,720,969)	(696,316,484)

Notes to the Financial Statements

26.1 AMOUNTS RECOGNISED IN THE INCOME STATEMENT

As at 31 December	2020	2018
	LKR	LKR
Recognised in profit or loss	(126,865,320)	(167,082,742)
Recognised in other comprehensive income	(80,539,165)	(31,293,253)

26.2 MOVEMENT IN DEFERRED TAX BALANCES

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

2019	Net Balance as at 1 January 2019	Balances merged from LDB as at 1 April 2019	Recognized in profit or loss	Recognized in OCI	Net Balance at 31 December 2019	Deferred Tax Asset	Deferred Tax Liability
Property, plant and equipment	156,886,994	7,091,947	(39,296,567)	-	124,682,374	-	124,682,374
Leases	-	214,157,744	(99,306,879)	-	114,850,865	-	114,850,865
Allowance for loan losses	(84,661,028)	(243,742,098)	41,348,381		(287,054,745)	(287,054,745)	-
Employee benefits	(539,538,825)	(8,135,223)	(47,144,934)	(31,293,253)	(626,112,236)	(626,112,236)	-
Operating lease	-	-	(22,682,742)	-	(22,682,742)	(22,682,742)	-
	(467,312,859)	(30,627,630)	(167,082,742)	(31,293,253)	(696,316,484)	(935,849,723)	239,533,239

27. OTHER ASSETS

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

28. DUE TO BANKS

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

28.1 MATURITY OF THE LEASING

As at 31 December	2020	2019
	LKR	LKR
Not later than 1 year	90,547	96,000
	90,547	96,000
Less - Interest in suspense	-	-
Total	90,547	96,000

Notes to the Financial Statements

29. DUE TO OTHER CUSTOMERS

As at 31 December	2020	2019
	LKR	LKR
At amortised cost (29.1)	172,882,632,278	149,599,829,047
Total	172,882,632,278	149,599,829,047

29.1 ANALYSIS

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

30. DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31 December	2020	2019
	LKR	LKR
Redeemable debentures (30.1)	2,000,000,000	4,707,852,534
Total	2,000,000,000	4,707,852,534

30.1 REDEEMABLE DEBENTURES

As at 31 December	2020	2019
	LKR	LKR
Opening balance as at 1 January	4,707,852,534	4,707,852,534
Debenture redeemed	(2,500,000,000)	-
Interest payable	-	535,784,685
Interest paid	(207,852,534)	(535,784,685)
Closing balance as at 31 December	2,000,000,000	4,707,852,534

Details of debenture issued

	Note	No. of Debentures	Face Value LKR	Amortised Cost	
				2020 LKR	2019 LKR
Debentures issued in 2015	30.1.1	-	-	-	2,707,852,534
Debentures issued in 2017	30.1.2	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000
Total debentures issued by the Bank		20,000,000	2,000,000,000	2,000,000,000	4,707,852,534

30.1.1 Debenture issued in 2015

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

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2020 (LKR)	Amortised Cost 2019 (LKR)	Allotment Date	Maturity Date	Rate of the interest
A	21,288,500	2,128,850,000	-	2,320,446,500	2015/01/30	2020/01/30	Fixed - 9.00% per annum payable annually
B	3,610,200	361,020,000	-	377,053,640	2015/01/30	2020/01/30	Fixed - 8.81% per annum payable bi-annually
C	101,300	10,130,000	-	10,352,394	2015/01/30	2020/01/30	Fixed - 8.71% per annum payable quarterly
	25,000,000	2,500,000,000	-	2,707,852,534			

Notes to the Financial Statements

30.1.2 Debenture issued in 2017

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

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2020 (LKR)	Amortised Cost 2019 (LKR)	Allotment Date	Maturity Date	Rate of the Interest
A	3,000,000	300,000,000	300,000,000	300,000,000	2017/03/31	2022/03/31	Fixed - 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	1,700,000,000	2017/03/31	2022/03/31	Fixed - 15.5% per annum payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000			

31. CURRENT TAX LIABILITIES

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

32. OTHER LIABILITIES

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

32.1 OPERATING LEASE LIABILITY

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

Notes to the Financial Statements

33. RETIREMENT BENEFIT OBLIGATION

As at 31 December	2020	2019
	LKR	LKR
Retirement benefit obligation (Note 33.1)	2,782,874,624	2,236,115,128
	2,782,874,624	2,236,115,128

33.1 NET ASSET/(LIABILITY) RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

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

33.2 AMOUNT RECOGNISED IN INCOME STATEMENT

As at 31 December	2020	2019
	LKR	LKR
Current service cost	141,687,765	102,414,880
Interest cost	237,028,204	221,596,303
Total amount recognised in the Income Statement	378,715,968	324,011,184

33.3 AMOUNT RECOGNISED IN STATEMENT OF OTHER COMPREHENSIVE INCOME

As at 31 December	2020	2019
	LKR	LKR
Net actuarial (gain)/loss on obligation	335,579,854	111,761,620
Total amount recognised in other comprehensive income	335,579,854	111,761,620

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

Actuarial assumptions	2020	2019
Discount rate as at 31 December	7.80%	10.60%
Future salary increment rate	8% (Every three years with the next increment due on 1 January 2021)	8% (Every three years with the next increment due on 1 January 2021)
Mortality	A1967/70 Mortality Table	A1967/70 Mortality Table
Retirement age	60 Years	60 Years

Expected average future working life of the active participants is 17 years (15 years 2018).

33.5 SENSITIVITY OF ASSUMPTIONS USED IN THE ACTUARIAL VALUATION

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

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

Increase/ (Decrease) in discount rate	Increase/ (Decrease) in salary increment rate	2020		2019	
		Sensitivity effect on Income Statement increase/(reduction) in results for the year LKR	Present value of defined benefit obligation increase/ (decrease) in the liability LKR	Sensitivity effect on Income Statement increase/(reduction) in results for the year LKR	Present value of defined benefit obligation increase/ (decrease) in the liability LKR
1%	-	212,277,839	(212,277,839)	156,043,798	(156,043,798)
(-1%)	-	(245,594,943)	245,594,943	(178,236,742)	178,236,742
-	1%	(246,581,281)	246,581,281	(191,192,223)	191,192,223
-	(-1%)	217,019,884	(217,019,884)	169,711,763	(169,711,763)

Notes to the Financial Statements

34. STATED CAPITAL

As at 31 December	2020	2019
	LKR	LKR
Ordinary shares		
Opening balance as at 1 January	8,047,229,930	8,047,229,930
Issue of shares	-	-
Closing balance as at 31 December	8,047,229,930	8,047,229,930

35. STATUTORY RESERVE FUND

As at 31 December	2020	2019
	LKR	LKR
Opening balance as at 1 January	742,261,195	717,331,468
Transfer during the period	20,201,803	24,929,727
Closing balance as at 31 December	762,462,998	742,261,195

36. RETAINED EARNINGS

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

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

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

b. Previous year (2019)

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

General Reserve Fund

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

Special Reserve Fund

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

Notes to the Financial Statements

38. CONTINGENT LIABILITIES AND COMMITMENTS

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

These contingencies and commitments are quantifies below:

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

38.1 ANALYSIS OF COMMITMENT AND CONTINGENCY EXPOSURE TO CREDIT RISK

As at 31 December 2020	Stage 1	Total
Guarantees and performance bonds	138,447,168	138,447,168
Other contingent items	65,929,841	65,929,841
Impairment for expected credit losses (38.1.1)	(2,042,296)	(2,042,296)
	202,334,713	202,334,713

As at 31 December 2019	Stage 1	Total
Guarantees and performance bonds	139,742,498	139,742,498
Other contingent items	93,153,311	93,153,311
Impairment for expected credit losses (38.1.1)	(2,189,819)	(2,189,819)
	230,705,990	230,705,990

38.1.1 Analysis of Commitment and Contingency Exposure to Credit Risk

As at 31 December	2020	2019
	LKR	LKR
Balance as at 1 January	2,189,819	1,715,667
Net charge for the year	(147,522)	474,152
	2,042,296	2,189,819

38.2 LITIGATION AGAINST THE BANK

Litigation is a common occurrence in the banking industry due to nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of possible losses reasonably estimated, the bank makes adjustments to accounts for adverse effects for which the claims may have on its financial standing. As at 31/12/2020, the Bank has 48 legal claims against the Bank and all material claims have been adequately provided for. The Legal Department of the Bank is of the view that currently pending litigations against the Bank will not have a material impact on the reported financial results or the future operations of the bank.

39. RELATED PARTY DISCLOSURES

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 - "Related Party Disclosures" i.e. significant investors, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

39.1 PARENT AND THE ULTIMATE CONTROLLING PARTY

Regional Development Bank is a Government owned Bank.

39.2 KEY MANAGEMENT PERSONNEL (KMPs) OF THE BANK

As per the Sri Lanka Accounting Standard -LKAS 24 - "Related Party Disclosures", the KMPs includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. KMPs include the members of the Board of Directors of the Bank, the Chief Executive Officer, Deputy General Managers, Senior Assistant General Managers, Regional General Managers, Compliance Officer, Chief Internal Auditor and Board Secretary.

Notes to the Financial Statements

39.2.1 Compensation to Key Management Personnel (KMPs)

As at 31 December	2020	2019
	LKR	LKR
Short-term employment benefits	104,012,596	99,340,946
Post employment benefits	15,873,682	-
Total	119,886,279	99,340,946

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

As at 31 December	2020	2019
	LKR	LKR
Items in the Statement of Financial Position		
Assets		
Loans and receivables	69,074,995	42,066,607
Total	69,074,995	42,066,607
Liabilities		
Deposits	74,673,859	74,224,998
Total	74,673,859	74,224,998
Items in the Income Statement		
Interest income	2,950,858	3,242,450
Interest expenses	4,961,370	4,133,197
Total	7,912,228	7,375,648

39.2.2.1 Terms and conditions of the accommodation granted to Key Management Personnel (KMP) and their Close Family Members (CFM)

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

Type of the Loan	Other Terms and Conditions	Balance as at 31.12.2019	Security Details 31.12.2019	
			Type	Value
Staff housing loans	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of employees.	13,609,871	Land	107,714,801
Staff vehicle loans		16,574,093	Motor vehicle	38,500,000
Cash backed loans		4,437,731	Fixed deposit	5,547,164
Consumptions and other loans		7,444,912		
		42,066,607		

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

Notes to the Financial Statements

39.3 TRANSACTIONS WITH THE SIGNIFICANT INVESTOR AND RELATED ENTITIES

In accordance in paragraph 25 of Sri Lanka Accounting Standard LKAS 24 on “Related Party Disclosures”, the Bank has exempted from the disclosure requirements under paragraph 18 on transactions with Government of Sri Lanka, significant investor and its related entities.

A number of entities in which the Government of Sri Lanka has an interest, have significant interests in the Bank.

The Bank has disclosed individually significant transactions and other transactions collectively, but not individually with significant investor and related entities under LKAS 24. The Bank has entered into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the Statement of Financial Position are as follows:

As at 31 December	Outstanding Balance	
	2020	2019
	LKR	LKR
Items in the Statement of Financial Position		
Assets		
Loans and receivables	214,605,086	235,326,181
Total	214,605,086	235,326,181
Liabilities		
Deposits	16,683,794,371	20,156,007,658
Total	16,683,794,371	20,156,007,658
Items in the statement of profit or loss		
Interest income	15,756,643	14,256,228
Interest expenses	1,927,228,758	2,568,256,240
Total	1,942,985,401	2,582,512,468

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

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

39.4 PRICING POLICY WITH RELATED PARTIES

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

40. ASSETS PLEDGED AS SECURITY

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

2020

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

2019

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

Notes to the Financial Statements

41. NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

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

42. CHANGE IN OPERATING ASSETS

As at 31 December		2020	2019
		LKR	LKR
Net change in loans and receivables from other customers		(22,405,498,881)	(6,947,870,967)
Change in other assets		(28,162,730)	(314,411,853)
Net change in financial investments at amortised cost - Debt and other instruments		(783,385,821)	(11,970,000)
Total		(23,217,047,432)	(7,274,252,820)

43. CHANGE IN OPERATING LIABILITIES

As at 31 December		2020	2019
		LKR	LKR
Net change in due to banks		377,454,313	7,665,484,695
Net change in due to other customers		23,257,229,441	8,042,488,385
Net change in other liabilities		183,523,330	3,510,634,016
Total		23,818,207,084	19,218,607,096

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 FAIR VALUE HIERARCHY

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

44.2 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table shows an analysis of financial instruments recorded at fair value at the reporting date by level of the fair value hierarchy: into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statement of Financial Position.

	2020			
	Level 1	Level 2	Level 3	Total
As at 31 December	LKR	LKR	LKR	LKR
Equity instruments at fair value through profit or loss	145,160	-	-	145,160
Financial assets - Fair value through other comprehensive income	-	-	2,289,919	2,289,919
	145,160	-	2,289,919	2,435,079

	2019			
	Level 1	Level 2	Level 3	Total
As at 31 December	LKR	LKR	LKR	LKR
Equity instruments at fair value through profit or loss	123,000	-	-	123,000
Financial assets - Fair value through other comprehensive income	-	-	2,289,919	2,289,919
	123,000	-	2,289,919	2,412,919

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

Notes to the Financial Statements

44.3 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

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

44.3.1 Basis of measurement for the fair value of financial assets and liabilities not carried at fair value

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Loans and Receivables to customers

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

Due to Customers

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

45. CURRENT VS NON-CURRENT ANALYSIS**2020**

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

Notes to the Financial Statements

2019

Assets	Within 12 Months	After 12 Months	Total
	LKR	LKR	LKR
Cash and cash equivalent	2,750,187,219	-	2,750,187,219
Placements with banks	9,798,242,492	-	9,798,242,492
Equity instruments at fair value through profit or loss	123,000	-	123,000
Financial assets at amortised cost - Loans and receivables from other customers	50,151,465,844	86,054,175,598	136,205,641,441
Financial assets at amortised cost - Debt & other instruments	42,635,525,488	3,029,219,912	45,664,745,400
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property, plant and equipment	-	1,228,419,894	1,228,419,894
Intangible assets		45,356,343	45,356,343
Right of use assets	-	855,183,154	855,183,154
Deferred tax assets	-	696,316,484	696,316,484
Other assets	585,688,247	2,146,735,593	2,732,423,839
Total assets	105,921,232,289	94,057,696,897	199,978,929,186
Liabilities			
Due to banks	6,050,082,637	15,999,926,367	22,050,009,005
Due to other customers	98,856,113,038	50,743,716,009	149,599,829,047
Debt issued and other borrowed funds	-	4,707,852,534	4,707,852,534
Current tax liabilities	448,881,448	-	448,881,448
Other liabilities	2,308,704,033	3,662,216,413	5,970,920,446
Retirement benefit obligation	152,156,112	2,083,959,016	2,236,115,128
Total liabilities	107,815,937,269	77,197,670,340	185,013,607,608
Maturity Gap	(1,894,704,980)	16,860,026,557	14,965,321,577
Cumulative Gap	(1,894,704,980)	14,965,321,577	-

46. RISK MANAGEMENT

46.1 INTRODUCTION

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is mainly exposed to;

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

46.1.1 Risk Management Framework

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

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

46.1.2 Asset and Liability Committee (ALCO)

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

46.1.3 Risk Measurement and Reporting

The Bank's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events / worst case scenarios in most of the major type of risks and the results are reported to Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & 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).

Notes to the Financial Statements

46.1.4 Risk Mitigation

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

46.2 CREDIT RISK

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

46.2.1 Impairment assessment (Policy applicable from 1 January 2018)

46.2.1.1 The Bank's internal rating process

Treasury, trading and interbank relationships

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

Sector classification of loans

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

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

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

Sector wise portfolios

1. Housing Loan: Housing loan carries the highest sectorial loan concentration with 23.6% as of December 31, 2020. Housing Loan consists of Term Loan - Housing and RDB Thilina Loans.
2. Term Loan Commercial : Loans provided for business purposes; retail, wholesale and others.
3. Term Loan Agriculture : Agriculture, agro equipments, cultivation, fisheries, livestock and pledge loans falls under this category.
4. Refinance / Interest Subsidy : Refinance and Interest subsidy loans has 2nd highest credit concentration. These loan schemes are operated through refinance and interest subsidy facilities provided by government institutions.
5. Term Loan - Industrial : Loans against transport, tourism, and loans to service sectors fall under this category.
6. Term Loan - Others : All those sectors (comprising of consumption, pension loans and other specialised loans schemes)
7. Liyaisura - Interest free loan scheme for women entrepreneurs.

Corporate loans (Services, Manufacturing and Industry loans)

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

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

Notes to the Financial Statements

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.

The Bank’s Delinquency status

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

46.2.1.2 Exposure at default

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

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank’s models.

46.2.1.3 Loss given default

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

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

46.2.1.4 Significant increase in credit risk

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

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

46.2.1.5 Grouping financial assets measured on a collective basis

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

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

- ☉ Customers below the individually significant threshold of LKR 2 Mn.

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

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

Notes to the Financial Statements

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

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

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

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

46.2.2 Maximum exposure to credit risk

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

As at 31 December	Carrying Amount	
	2020	2019
	LKR	LKR
Placements with banks	8,436,353,244	9,798,242,492
Financial assets held for trading / Equity Instruments at fair value through profit or loss	145,160	123,000
Financial assets at amortised cost - Loans and receivables from other customers	156,694,052,473	136,205,641,441
Financial assets at amortised cost - Debt & other instruments	46,962,354,137	45,664,745,400
Financial assets - Fair value through other comprehensive income	2,289,919	2,289,919
Other assets	1,788,634,829	1,633,841,628
	213,883,829,762	196,055,071,099

Commitments and Contingencies

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

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

Commitments and Contingent Liabilities

As at 31 December	2020	2019
	LKR	LKR
Contingent liabilities		
Bank guarantee	138,447,168	139,742,498
Bills sent for collection	65,929,841	93,153,311
Less : Impairment for expected credit losses - Guarantees	(2,042,296)	(2,189,819)
Total contingent liabilities and commitments	202,334,713	230,705,990

Notes to the Financial Statements

46.2.3 Assessment of Expected Credit Losses

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

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

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

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

	2020	2019
	LKR	LKR
Balance as at 1 January	7,667,314,167	3,498,117,663
Net charge to profit or loss	2,012,924,828	2,401,637,175
Other movements / Write off	(1,562,972)	(33,815,719)
Merged of LDB Balances as at 01.04.2019	-	1,801,375,047
Balance as at 31 December	9,678,676,023	7,667,314,167

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

As at 31 December	2020	2019
	LKR	LKR
Agriculture	47,095,335,921	37,815,449,698
Industrial	29,266,399,727	24,421,355,279
Trade and business	29,957,899,817	23,457,585,167
Transport service	131,099,441	163,675,482
Housing	22,297,649,276	23,405,658,248
Consumption	24,241,516,926	23,113,413,599
Loans against deposit	6,245,486,120	6,310,336,711
Leasing	1,101,637,804	105,452,184
Staff	4,256,752,580	3,555,565,454
Interest receivable on loans and advances	2,505,272,109	2,345,059,019
Total	167,099,049,722	144,693,550,841

46.2.6 Collateral held and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties and personnel guarantees

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

Notes to the Financial Statements

Definition of Past Due

Banks consider that any amounts uncollected ninety one days or more beyond their contractual due date are 'past due'.

2020	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR	LKR
Placements with banks	8,436,353,244	8,436,353,244
Equity instruments at fair value through profit or loss	145,160	145,160
Financial assets at amortised cost - Loans and receivables from other customers	167,099,049,722	143,599,303,850
Financial investments at amortised cost - Debt and other instruments	46,962,354,137	46,962,354,137
Equity instruments at fair value through profit or loss	2,289,919	2,289,919
Other assets	1,788,634,829	1,788,634,829

2019	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	LKR	LKR
Placements with banks	9,798,242,492	9,798,242,492
Equity instruments at fair value through profit or loss	123,000	123,000
Financial assets at amortised cost - Loans and receivables from other customers	144,693,550,841	144,693,550,841
Financial investments at amortised cost - Debt and other instruments	45,664,745,400	45,664,745,400
Equity instruments at fair value through profit or loss	2,289,919	2,289,919
Other assets	1,633,841,628	1,633,841,628

46.2.6.1 Type of Credit Exposure

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

	Percentage of Exposure that is Subject to Collateral Exposure		Principal Type of Collateral Held
	2020	2019	
	LKR	LKR	
Loans and advances to retails customers			
Mortgage lending	23,499,745,872	22,569,785,739	Residential Property
Personal loans	143,599,303,850	122,147,768,591	Personal Guarantee/Motor Vehicle/ Equipment etc.
Investment debt securities			
Debenture - DFCC	500,000,000	-	None
Commercial Bank	500,000,000	500,000,000	
	168,099,049,722	145,217,554,330	

46.2.6.2 Loan-to-value ratio (LTV)**Residential Mortgage lending**

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

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

Notes to the Financial Statements

46.2.7 Concentration of Credit risk

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

Concentration of credit risk

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

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

46.3 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

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

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

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

Notes to the Financial Statements

46.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2020. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Contractual maturities of undiscounted cash flows of financial assets and liabilities (2020).

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

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

Assets	Up to 3 Months	3-12 Months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
Cash and cash equivalent	2,750,187,219	-	-	-	-	2,750,187,219
Placements with banks	9,798,242,492	-	-	-	-	9,798,242,492
Equity Instruments at fair value through profit or loss	12,300	-	-	-	-	12,300
Financial assets at amortised cost - Loans and receivables from other customers	13,840,904,593	38,789,627,229	49,501,345,371	20,245,711,687	22,315,961,961	144,693,550,841
Financial assets at amortised cost - Debt and other instruments	22,069,935,725	20,565,579,743	516,934,932	-	2,512,295,000	45,664,745,400
Equity instruments at fair value through other comprehensive income	-	-	-	-	2,289,919	2,289,919
Other assets	828,977,211	3,839,264	85,400,557	555,365,369	160,259,226	1,633,841,628
Total assets	49,288,370,241	59,359,046,236	50,103,680,860	20,801,077,056	24,990,806,106	232,463,306,963
Liabilities						
Due to banks	1,210,287,929	2,340,021,873	7,490,058,328	2,995,029,165	8,014,611,709	22,050,009,004
Due to other customers	39,329,966,301	59,526,146,737	9,305,044,506	13,488,014,745	27,950,656,759	149,599,829,048
Debt issued and other borrowed funds	2,707,852,534	-	2,000,000,000	-	-	4,707,852,534
Other liabilities	3,621,542,854	345,184,748	19,467,494	11,758,124	956,317,434	4,954,270,654
Total liabilities	46,869,649,618	62,211,353,358	18,814,570,329	16,494,802,033	36,921,585,902	181,311,961,241
Total net asset/(liability)	2,418,720,623	(2,852,307,122)	31,289,110,531	4,306,275,023	(11,930,779,796)	51,151,345,723

Notes to the Financial Statements

46.3.2 Contractual Maturities of Commitments and Contingencies

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

2020

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

2019

Contingent Liabilities	On Demand	Less than 3 Months	3 to 12 Months	1-5 Years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
Bank guarantee (without impairment)	-	16,750,000	117,896,998	5,095,500	-	139,742,498
Other contingent items - Bills sent for collection	93,153,311	-	-	-	-	93,153,311
Total Contingent Liabilities	93,153,311	16,750,000	117,896,998	5,095,500	-	232,895,808

46.3.3 Statutory Liquid Assets Ratio

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

46.3.4 Due to Banks and due to other customers (Deposits) to loans and receivables from banks and other customers (Advances) ratio

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

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

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

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

46.4 MARKET RISK

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

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

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

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

Notes to the Financial Statements

2019		Market Risk Measure	
		Trading Portfolios	Non-Trading Portfolios
As at 31 December		Carrying Amount	
Assets subject to market risk			
Cash and cash equivalent	2,750,187,219	-	2,750,187,219
Placements with banks	9,798,242,492	-	9,798,242,492
Equity instruments at fair value through profit or loss	123,000	123,000	-
Financial investments at amortised cost - Debt and other instruments	45,664,745,400	-	45,664,745,400
Financial assets at amortised cost - Loans and receivables from other customers	136,205,641,441	-	136,205,641,441
Loans and receivables from other customers	2,289,919	-	2,289,919
Other assets	1,633,841,628	-	1,633,841,628
Liabilities subject to market risk			
Due to banks	22,050,009,005	-	22,050,009,005
Due to other customers	149,599,829,047	-	149,599,829,047
Debt issued and other borrowed funds	4,707,852,534	-	4,707,852,534
Current tax liabilities	448,881,448		448,881,448
Other liabilities	4,954,270,654	-	4,954,270,654

46.4.1 Exposure to Interest rate risk

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

2019	Up to 3 Months	Up to 3 Months	3-12 Months	1 - 5 Years	Over 5 Years
	LKR	LKR	LKR	LKR	LKR
Cash and balances with Central Bank	2,750,187,219	2,750,187,219	-	-	-
Placements with banks	9,798,242,492	9,798,242,492	-	-	-
Financial assets at amortised cost - Loans and receivables from other customers	136,205,641,441	13,840,904,593	38,789,627,229	69,747,057,058	13,828,052,561
Financial investments at amortised cost - Debt and other instruments	45,664,745,400	22,069,935,725	20,565,579,743	516,934,932	2,512,295,000
Financial assets - Fair value through other comprehensive income	2,289,919	-	-	-	2,289,919
Total undiscounted assets	194,421,106,470	48,459,270,029	59,355,206,972	70,263,991,990	16,342,637,480
Due to banks	22,050,009,005	1,210,287,929	2,340,021,873	10,485,087,494	801,411,709
Due to other customers	149,599,829,048	39,329,966,301	59,526,146,737	22,793,059,251	27,950,656,759
Debt issued and other borrowed funds	4,707,852,534	2,707,852,534	-	2,000,000,000	-
Other liabilities	4,954,270,655	3,621,542,854	345,184,748	31,225,618	956,317,434
Total undiscounted liabilities	181,311,961,241	46,869,649,618	62,211,353,358	35,309,372,362	29,708,385,902
Interest rate sensitivity	13,109,145,230	1,589,620,411	(2,856,146,386)	34,954,619,628	(13,365,748,423)

Notes to the Financial Statements

46.4.2 Exposure to currency risk

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

46.5 OPERATIONAL RISK

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

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

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

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

47. CAPITAL MANAGEMENT

47.1 REGULATORY CAPITAL

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

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

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

47.2 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.

Notes to the Financial Statements

48. SUBSEQUENT EVENTS

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

CORONAVIRUS (COVID 19) OUTBREAK

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

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

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

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

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

206	Three Year Summary
208	Investor Information
209	Geographical Distribution of Branches
212	Notes
Inner Back Cover - Corporate Information	

Three Year Summary

Description	2020 LKR	2019 LKR	2018 LKR
Profit & Loss			
Total Income	24,354,246,869	27,507,821,054	26,070,610,605
Interest Income	23,182,459,141	26,357,071,298	24,865,108,981
Interest Expenses	(12,294,380,832)	(13,903,881,276)	(12,959,526,709)
Net Interest Income	10,888,078,309	12,453,190,022	11,905,582,272
Net Other Income	899,852,505	872,445,458	946,396,458
Total operating income	11,787,930,814	13,325,635,480	12,851,978,730
Impairment loss on financial assets	(2,010,929,062)	(2,408,748,853)	(1,409,784,095)
Net operating income	9,777,001,752	10,916,886,627	11,442,194,635
Personal expenses	(5,983,362,037)	(5,931,625,972)	(5,877,946,793)
Depreciation and amortization expenses	(616,792,758)	(617,322,679)	(319,020,738)
Other expenses	(1,115,987,925)	(1,407,680,268)	(1,638,896,765)
Levy Paid to general treasury	-	-	-
Operating Profit	2,060,859,032	2,960,257,709	3,606,330,338
NBT	-	(123,625,704)	(154,490,412)
VAT on Financial Services	(1,047,410,630)	(1,012,948,950)	(1,158,678,090)
Debt repayment levy	-	(601,522,646)	(190,079,946)
Profit Before Taxation	1,013,448,401	1,222,160,409	2,103,081,890
Tax on Profit	(609,412,349)	(723,565,878)	(1,029,495,530)
Profit After Taxation	404,036,052	498,594,531	1,073,586,360
Assets			
Cash and cash equivalent	3,758,858,141	2,750,187,219	689,184,136
Placements with banks	8,436,353,244	9,798,242,492	6,496,628,053
Equity Instruments at fair value through profit or loss	145,160	123,000	115,600
Financial assets at amortised cost - Loans and receivables from other customers	156,694,052,473	136,205,641,441	133,432,804,004
Financial investments at amortised cost - Debt & other instruments	46,962,354,137	45,664,745,400	27,920,326,465
Equity Instruments at fair value through other comprehensive income	2,289,919	2,289,919	4,176,342,999
Property, plant and equipment	970,538,655	1,228,419,894	1,275,785,603
Intangible assets	21,272,699	45,356,343	60,787,719
Right of use assets	598,978,557	855,183,154	-
Deferred tax assets	903,720,969	696,316,484	467,332,859
Other assets	2,760,586,570	2,732,423,840	2,418,011,987
Total Assets	221,109,150,524	199,978,929,186	176,937,319,425

Description	2020 LKR	2019 LKR	2018 LKR
Liabilities			
Due to banks	21,796,679,350	22,050,009,005	11,098,334,822
Due to other customers	172,882,632,278	149,599,829,047	141,559,973,557
Debt issued and other borrowed funds	2,000,000,000	4,707,852,534	4,707,852,534
Current tax liabilities	378,203,555	448,881,448	473,833,076
Other liabilities	6,154,443,776	5,970,920,446	2,460,286,430
Retirement benefit obligation	2,782,874,624	2,236,115,128	1,926,924,377
Total Liabilities	205,994,833,583	185,013,607,608	162,227,204,796
Equity			
Stated capital	8,047,229,930	8,047,229,930	8,047,229,930
Statutory reserve fund	762,462,998	742,261,195	717,331,468
Retained earnings	2,449,318,947	2,421,534,400	2,315,905,812
Other reserves	3,855,305,066	3,754,296,053	3,629,647,420
Total shareholders' equity	15,114,316,941	14,965,321,578	14,710,114,631
Total equity and liabilities	221,109,150,524	199,978,929,186	176,937,319,426
Liquid Assets Ratio	29.30%	32.38%	24.27%
Capital Adequacy Ratio -			
AS per BASEL III			
Common Equity Tier 1 Capital Ratio	10.34%	10.90%	11.58%
Total Tier 1 Capital Ratio	10.34%	10.90%	11.58%
Total Capital Ratio	14.94%	16.27%	13.61%

Investor Information

UNLISTED DEBENTURE INFORMATION

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

Type	No. of Debentures	Face Value (LKR)	Amortised Cost 2020 (LKR)	Allotment Date	Maturity Date	Rate of the Interest
A	3,000,000	300,000,000	300,000,000	2017/03/31	2022/03/31	Fixed - 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	2017/03/31	2022/03/31	Fixed - 15.50% per annum payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000			

Instrument Rating : "A-" ICRA LANKA

SIGNIFICANT RATIOS

	31/12/2020	31/12/2019
Net assets value per share (LKR)	27.73	27.45
Debt to equity (%)	13.23%	31.46%
Interest cover (Times)	2.68	3.26

SHARE INFORMATION

	Current Year		Previous Year	
	31/12/2020		31/12/2019	
Shareholders	No. of Ordinary Shares	Holding %	No. of Ordinary Shares	Holding %
General Treasury	495,758,027	91%	495,758,027	91%
Bank of Ceylon	16,448,448	3%	16,448,448	3%
People's Bank	16,448,448	3%	16,448,448	3%
National Savings Bank	16,452,126	3%	16,452,126	3%
	545,107,049		545,107,049	

Geographical Distribution of Branches

PROVINCES OF SRI LANKA

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

DISTRICTS OF SRI LANKA

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

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

Sabaragamuwa Province	
Admin District	Branch Name
Kegalle	Aranayake
Kegalle	Bulathkohupitiya
Kegalle	Dehiowita
Kegalle	Deraniyagala
Kegalle	Dewalegama
Kegalle	Hemmathagama
Kegalle	Kegalle
Kegalle	Kegalle 2nd City
Kegalle	Kitulgala
Kegalle	Kotiyakumbura
Kegalle	Mawanella
Kegalle	Nelumdeniya
Kegalle	Pitagaldeniya
Kegalle	Rambukkana
Kegalle	Ruwanwella
Kegalle	Warakapola
Kegalle	Yatinyanthota
Rathnapura	Balangoda
Rathnapura	Eheliyagoda
Rathnapura	Embilipitiya
Rathnapura	Erathna
Rathnapura	Godakawela
Rathnapura	Kahawatta
Rathnapura	Kalawana
Rathnapura	Kiriella
Rathnapura	Kolonna
Rathnapura	Kuruvita
Rathnapura	Nivithigala
Rathnapura	Pelmadulla
Rathnapura	Pothupitiya
Rathnapura	Pulungupitiya
Rathnapura	Rakwana
Rathnapura	Rathnapura
Rathnapura	Sri Palabaddala
Rathnapura	Weligepola

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

Geographical Distribution of Branches

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

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

Southern Province		
Admin	District	Branch Name
Galle	Thalgaswala	
Galle	Udugama	
Galle	Uragasmanhandiya	
Galle	Yakkalamulla	
Hambantota	Agunakolapelessa	
Hambantota	Ambalantota	
Hambantota	Barawakumbuka	
Hambantota	Beliatta	
Hambantota	Hambantota	
Hambantota	Hambantota 2nd City	
Hambantota	Katuwana	
Hambantota	Lunugamvehera	
Hambantota	Middeniya	
Hambantota	Ranna	
Hambantota	Sooriyawewa	
Hambantota	Tangalle	
Hambantota	Thissamaharama	
Hambantota	Walasmulla	
Hambantota	Warapitiya	
Hambantota	Weeraketiya	
Matara	Akuressa	
Matara	Deiyandara	
Matara	Deniyaya	
Matara	Devinuwara	
Matara	Dikwella	
Matara	Gandara	
Matara	Hakmana	
Matara	Kamburugamuwa	
Matara	Kamburupitiya	
Matara	Kekanadura	
Matara	Kirinda	
Matara	Matara City	
Matara	Mawarala	
Matara	Mirissa	
Matara	Morawaka	
Matara	Pamburana	
Matara	Pitabeddara	
Matara	Thihagoda	
Matara	Urubokka	
Matara	Weligama	

North Central Province		
Admin	District	Branch Name
Anuradhapura	Anuradhapura	
Anuradhapura	Galenbidunuwewa	
Anuradhapura	Galnewa	
Anuradhapura	Gonapathirawa	
Anuradhapura	Kahatagasdigiliya	
Anuradhapura	Kekirawa	
Anuradhapura	Madawachchiya	
Anuradhapura	Mihinthale	
Anuradhapura	New Town - Anuradhapura	
Anuradhapura	Rambewa	
Anuradhapura	Thalawa	
Anuradhapura	Thambuththegama	
Anuradhapura	Thambuththegama Town	
Anuradhapura	Thirappane	
Polonnaruwa	Aralaganwila	
Polonnaruwa	Bakamoonna	
Polonnaruwa	Galamuna	
Polonnaruwa	Hingurakgoda	
Polonnaruwa	Kaduruwela	
Polonnaruwa	Kaduruwela 2nd City	
Polonnaruwa	Manampitiya	
Polonnaruwa	Medirigiriya	
Polonnaruwa	Polonnaruwa	
Polonnaruwa	Pulasthigama	
Polonnaruwa	Sewanapitiya	
Polonnaruwa	Siripura	

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

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

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

Notes

Corporate information

REGISTERED NAME OF THE BANK

Pradeshiya Sanwardana Bank

LEGAL STATUS

A licensed specialised bank established under Pradeshiya Sanwardana Bank Act No. 41 of 2008

CREDIT RATING

"A-" Negative ICRA Lanka Limited

BOARD OF DIRECTORS

Independent non-executive directors

Mr. M Mahinda Saliya - Chairman
Mr. W M Karunaratne - Director
Mr. M S D Ranasiri - Director
Prof. H M W Ariyaratne Herath - Director
Dr. Nirmal De Silva - Director
Mr. Lalith Abey Siriwardena - Director

Non-independent non-executive directors

Mr. K E D Sumanasiri (till 26th August 2021)
Mr. K Raveendran
Mr. B M Premanath

ACTING GENERAL MANAGER/CEO

Ms. D K Rathnayake

SECRETARY TO THE BOARD OF DIRECTORS

Ms. R M T Rajapaksha

NUMBER OF BRANCHES

276

HEAD OFFICE

No. 933, Kandy Road, Wedamulla, Kelaniya
Tel : +94 11203 5454/+94 112 035 455-9
Fax : +94 11203 5467
E Mail : info@rdb.lk
Website : www.rdb.lk
Tax Payer Identification Number (TIN) : 409272339
VAT Reg. No. : 409272339 – 7000

AUDITORS

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

PROVINCIAL OFFICES

North central provincial office

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

Uva provincial office

No. 1/315, Passara Road, Badulla.

Sabaragamuwa provincial office

No. 510, Colombo Road, Weralupa, Rathnapura.

Southern provincial office

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

Central provincial office

No. 16, Dharmashoka Mawatha, Kandy.

Western provincial office

No. 36, Kandy Road, Miriswatta, Mudungoda.

North western provincial office

No. 155, Negombo Road, Kurunegala.

Eastern provincial office

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