Transformation through Innovation

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பிரதேச அபிவிருத்தி வங்கி
RDB Regional Development Bank

Annual Report 2022

TRANSFORMATION THROUGH INNOVATION

We have dedicated fulfilling needs of our customers and stakeholders nearly four decades. Throughout this journey, we have consistently embraced innovative approaches in the financial and monetary sectors. Our unwavering support has enabled all our stakeholders to achieve their goals and objectives.

Over past years, we guided and facilitated our customers and staff through innovative enhancements by implementing swift and efficient solutions.

Now, we are advancing to the next level of stakeholder's empowerment by focusing on seamless financial and monetary services through digital transformation. This digital evolution will transcend traditional limitations, delivering a secure, efficient, and technologically enhanced experience, paving the way for a more secure and prosperous future.

CONTENT

CONTENT

Vision

To be the Trusted Development Financing Partner to the Nation

Mission

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

About Us

The beginning of Regional Development Bank(RDB) goes back to the year 1985, when district level banks under the category of Regional Rural Development Banks were established. In 1997, seventeen such Regional Rural Development Banks were merged into six Provincial Level Banks, namely Rajarata, Ruhuna, Wayamba,Uva, Kandurata and Sabaragamuwa Development Banks. These six provincial banks were further merged in May 2010, as a national level development bank and named the Pradeshiya Sanwardhana Bank (Regional Development Bank or RDB).

The RDB was established under the Pradeshiya Sanwardhana Bank Act No. 41 of 2008 as a fully State-owned national level bank with the long-term objective of improving the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy.

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

Today, with over six million loyal account holders complemented by 272 branches and empowered by over 2,530 professional permanent staff members, the RDB is well equipped to improve its entrepreneurs who will propel our country's socioeconomic prosperity.

OUR JOURNEY / MILESTONES

The Inspirational Story of Success After Merging Six Provincial Development Banks as One National Level Development Bank

Total Assets Growth

595%

From LKR 41 Bn to LKR 285 Bn

Total Deposit Growth

556%

From LKR 32 Bn to LKR 210 Bn

Total Loans and Advances Growth

616%

From LKR 30 Bn to LKR 215 Bn

Operating Profit Growth

438%

From LKR 371 Mn to LKR 1,998 Mn

Total Equity Growth

433%

From LKR 3 Bn to LKR 16 Bn

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 -2009, have drastically improved during the twelve + years period (2010-2022) after establishing Regional Development Bank (RDB) in 2010 merging all previous Provincial Development Banks.

From May 2010 to December 2022

- Total Deposit of RDB has increased by LKR 178 Bn from LKR 32,350 Mn to LKR 210,301Mn
- Total Loans and Advances of RDB has increased by LKR 185 Bn from LKR 30,311 MN to LKR 215,373 Mn
- Total Asset of RDB has increased by LKR 244 Bn from LKR 41,018 Mn to LKR 285,395 Mn

History of RDB

1985 Established 17 Regional Rural Development Banks

1997 Established 6 Provincial Development Banks

2010 Established one national level entity as Pradeshiya Sanwardhana Bank

2018 Acquired Lankaputhra Development Bank

The beginning of Regional Development Bank (RDB) can be traced to 1985 when district level banks under the category of Regional Rural Development Banks were established in terms of the Regional Rural Development Bank Act No. 15 of 1985. Subsequently, in 1997, under the Regional Development Banks 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 Sanwardhana Bank Act No. 41 of 2008 these six banks were merged in to one national entity as Pradeshiya Sanwardhana Bank as known as Regional Development Bank on 1st 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, commercial, 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 272 branches in the island wide network.

- Total income of the Bank has increased by 48% compared to the previous year. In the year 2022, operating profit increased to LKR 1,998 Mn which is 3.70% higher than the operating profit of LKR 1,927 Mn recorded in 2021. Return on Assets (ROA) before tax has recorded as 0.47% that stood at 0.78% in 2021.

Support Services to our Customers

Western Union with NDB

Money transfers through the Western Union (WU) 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 and instantly to customer bank account with no downtime. Lanka Money Transfer is with a wide international network consisting of over 275 locations and this service available at 272 RDB-Branches island wide.

Utility Bill Service with Sri LankaTelecom, Ceylon Electricity Board(CEB), National Water Supply and Drainage Board(NWSDB).

RDB facilitates to pay utility bills under one roof. Accordingly, customers can easily pay their electricity bills, water bills and telecommunication bills through RDB branches & our Door to Door Agent Service as well.

RDB ATM Facility

Our customers are able to withdraw their money at any one of over 4000 ATMs island wide. Approximately 350,000 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

RDB QR

RDB launches "RDB QR" for Merchants in 2021. Accordingly, RDB merchant customers are able to do the transactions through QR code without using the Cash or card. This is a hassle-free transaction for the merchants & the buyers.

FINANCIAL HIGHLIGHTS

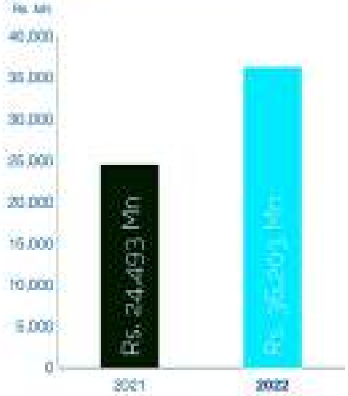
	2022 LKR.000	2021 LKR.000	Change %
Operating Results for the Year			
Gross Income	**36,202,750**	24,492,769	47.81%
Operating profit before taxes	**1,998,116**	1,926,782	3.70%
Taxation	**648,721**	1,620,479	-59.97%
Profit after tax	**1,349,395**	306,303	340.54%
Profit Attributable to shareholders	**1,458,769**	279,005	422.85%
Assets & liabilities			
Customer Deposits	**210,301,323**	187,752,465	12.01%
Loans & receivables	**215,372,502**	189,039,666	13.93%
Total Assets	**285,395,150**	245,889,512	16.07%
Total Liabilities	**269,169,023**	230,496,189	16.78%
Shareholder's Fund	**16,226,127**	15,393,322	5.41%
Profitability			
Return on assets (Operating Profits)	**0.47%**	0.78%	-0.31%
Return on equity	**8.54%**	8.32%	0.22%
Non Performing Loan Ratio	**8.46%**	8.71%	-0.25%

Regulatory Ratios

Capital Adequacy Ratio (As Per BASEL III)	2022 (%)	Minimum Requirement	2021 (%)	Minimum Requirement
Common Equity Tier 1 including Capital Conservation Buffer	**8.29%**	**7.5%**	8.72%	7.5%
Total Tier 1 including Capital Conservation Buffer	**8.29%**	**8.5%**	8.72%	8.5%
Total Capital Ratio including Capital Conservation Buffer	**15.22%**	**12.5%**	14.27%	12.5%
Statutory liquid assets ratio	**27.83%**	**20.0%**	26.18%	20.0%

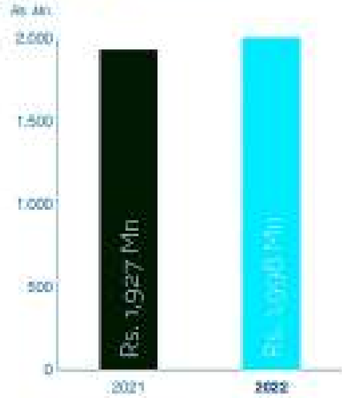
Gross Income

Rs. **36,203** Mn.



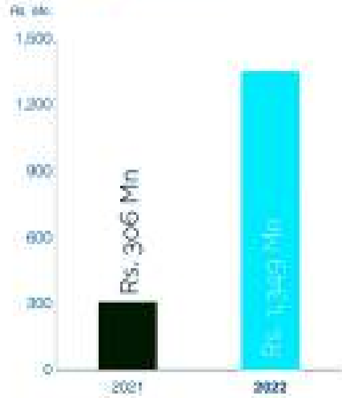
Operating Profit Before Taxes

Rs. **1,998** Mn.



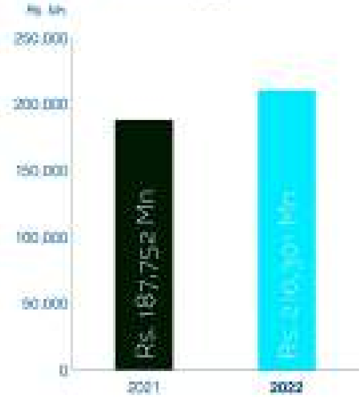
Profit After Tax

Rs. **1,349** Mn.



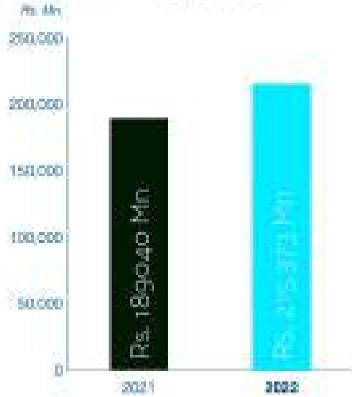
Customer Deposits

Rs. **210,301** Mn.



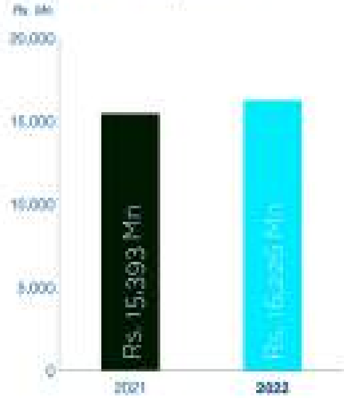
Loans and Receivables

Rs. **215,373** Mn.



Shareholder's Fund

Rs. **16,226** Mn.



CHAIRMAN'S MESSAGE

Dear Stakeholders,

As we reflect on the conclusion of a challenging year for Sri Lanka, it is clear that the economic instability and political turbulence during the first half of the year had far-reaching effects on individuals and communities, with the greatest impact felt by the most vulnerable and less affluent members of society. In the face of these challenges, as a development bank, committed to empowering rural communities, found itself confronting the adverse consequences of the situation. This period tested our resilience and determination to continue fostering sustainable growth despite the difficult environment. Throughout the period, we remained focused on our core objectives. I am pleased to share that we successfully navigated through challenging 12 months in recent history, preserving the trust of our loyal clients and helping them manage their financial difficulties. It is with great pride that I present to you the Annual Report and Financial Statements for the financial year ended 31 December 2022, showcasing the strength and perseverance that guided us through this turbulent period.

The economic crisis resulted in significant obstacles. According to the provincial estimates of the Department of Census and Statistics, Sri Lanka's economy contracted by 4.8% year-on-year in the first half of 2022, a sharp decline compared to the 9.3% growth during the same period in 2021. While there were signs of gradual recovery at the start of the year, this momentum reversed by the second quarter as the crisis deepened, exacerbated by growing uncertainties stemming from the forex crisis. This led to a contraction across all major economic sectors, which faced numerous challenges. Inflation continued to rise rapidly, and the Sri Lankan rupee experienced a significant depreciation

In this environment, the banking sector faced significant challenges, including a devalued currency, rising inflation, and the growing threat of non-performing loans (NPLs). The sharp increase in market interest rates put banks at greater credit risk. As a result, the financial health of banks came under considerable strain, with the NPL ratio rising sharply, highlighting the difficult financial conditions borrowers were experiencing. To mitigate these challenges, concessionary measures were introduced for micro, small, and medium enterprises, as well as individuals, to help eligible borrowers continue their income-generating activities and gradually resume repayment of their loans

CHAIRMAN'S MESSAGE

Our Approach

As a development bank, all of our clients are subject to the concessionary regulations set by the Central Bank of Sri Lanka (CBSL). Consequently, we were obligated to provide relief to borrowers affected across various sectors. These concessions included debt moratoriums, loan restructuring or rescheduling, suspension of recovery actions, low-interest working capital loans, and waivers of fees for specific banking transactions, especially for clients in micro, small, and medium enterprises, including women involved in agriculture, livestock, and fisheries. As a result, we could not propose higher interest rates offered by commercial banks, nor could we adjust the fixed lending rates for the loan terms. This situation placed significant pressure on our financial performance. Additionally, the rise in non-performing loans due to the ongoing crisis prompted us to implement stricter recovery measures and adopt a more rigorous evaluation process when assessing borrowers' profiles before granting loans.

During this challenging period, we remained committed to supporting our customers in navigating the difficult circumstances using the most effective approaches. As part of this effort, we introduced special interest rates on selected products for up to one year and made only modest increases (2-3%) to the interest rates of two products: 'Thilina' (personal loans) and 'Detusavi' (pensioner loans). Additionally, we continued to offer government-backed refinance loan schemes to assist small and medium-scale entrepreneurs.

Digital Transformation for efficacy at RDB

With the growing focus on technology in the banking sector and the increasing demand for digital financial transactions, we successfully launched the QR payment method and the JustPay payment facility through any mobile app. Additionally, we have made plans to implement a new loan origination system. To further improve efficiency, we adopted strategies to optimize our deposit mix, helping to reduce interest costs. We are confident that these initiatives will significantly enhance customer convenience and satisfaction, raising our service standards to a new level.

RDB Performance

Through these strategic initiatives, we have continued to create value for our customers, maintaining our commitment to empower rural communities through financial inclusion. Over the course of the year, we achieved strong results, with a remarkable 203% improvement in our treasury operations. The increase in deposit rates helped attract more funds into the bank, boosting liquidity. Customer deposits grew by 12%, while loans and receivables rose by 13.93%.

Although the bank's operating profit recorded a modest increase of 3.70% compared to the previous year, recording an increase of Rs. 36 Bn in gross income.

By implementing sound strategic measures and making timely interventions, while staying adaptable to the evolving business landscape, we strengthened our position during this period. This approach allowed us to successfully navigate the crisis and maintain a solid performance, preserving our client base. During this challenging time, supporting our clients became our top priority, with their needs taking precedence over our own interests. This was made possible through the unwavering commitment of our RDB team and our close relationship with customers, working together to achieve the bank's core objectives.

Corporate Governance

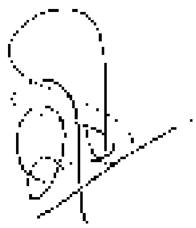
Our growth and success are driven by a strong governance framework, which serves as the foundation of our operations, ensuring transparency, accountability, and ethical practices in every aspect of our operations. As a result, we adhere to all relevant governance standards and statutory requirements. This solid governance base has enhanced our ability to deliver value to our customers by building trust, maintaining integrity, and upholding exceptional service standards.

Way Forward

We are eager to seize growth opportunities that may arise with the improved operating environment in the coming financial year. Having navigated through the toughest times with resilience and strategic foresight, we are now poised to enter the next phase of growth for the Regional Development Bank. Our focus will remain on supporting grassroots-level entrepreneurs by providing accessible and affordable credit facilities to improve their living standards. As we do this, continuously refining our product offerings to meet the evolving needs of our clients will be a key priority. We will also enhance our product portfolio to better meet the evolving needs of our customers, placing a greater emphasis on digital banking and expanding our branch network into regions with a larger presence of our target customer base. These initiatives will be further strengthened by our planned merger with another financial institution, in line with government directives, to enhance our capacity to serve the country's rural economy more effectively.

Acknowledgement

I would like to take this opportunity to express my sincere gratitude to our General Manager/CEO and the Board of Directors for their steadfast leadership during this challenging period. On behalf of the Board, I also extend our heartfelt thanks to our loyal customers and stakeholders for their unwavering support throughout this challenging time. My deepest appreciation goes to our management team and employees for their exceptional dedication in delivering uninterrupted service to our clients. Having emerged from the most challenging period, I am confident that our dedication, strengthened by a solid governance foundation, will drive us toward achieving our objectives and making a meaningful contribution to the country's economic growth.



Mahinda Saliya
Chairman

GENERAL MANAGER'S/ CEO'S REVIEW

It is with great pleasure that I present the Annual Report and Financial Statements of the Regional Development Bank for the year ending 31st December 2022. The past year has been particularly challenging for the country's economy, which faced an acute financial crisis that affected all sectors and caused significant hardship for the majority. Despite these challenges, the Bank demonstrated resilience by implementing strategies to navigate the difficult circumstances and maintain our growth. We have remained steadfast in our mission to enhance the living standards of rural communities by providing access to affordable credit facilities, thereby contributing to the strengthening of the rural economy.

At the beginning of fiscal year 2022, the nation was in the process of recovering from a prolonged pandemic, gradually returning to normalcy in both daily life and the economy. However, the recovery was short-lived, as the country was struck by its worst economic crisis since independence in the second quarter of the year. This crisis led to a 7.8% contraction in the economy, with all major sectors experiencing a decline. The challenges continued to mount, including prolonged power outages, shortages of essential goods, and a lack of fuel and raw materials due to supply chain disruptions, which affected both individuals and businesses. During this period, rising inflation and the increasing cost of living put significant pressure on purchasing power, while the Sri Lankan rupee depreciated against the US dollar. These developments had a severe impact on the low-income segment, leading to widespread social unrest and protests throughout the year.

The banking sector was not immune to the impacts of these challenges. The high-interest rate and the reduction in people's purchasing power adversely affected this sector. One major issue we faced was the need to adjust our loan interest rates to align with the rising market rates, which significantly impacted on our profitability and led to a notable decrease in revenue margins. During this period, the Central Bank of Sri Lanka (CBSL) also continued to implement regulatory measures aimed at supporting the banking sector, ensuring the efficient flow of credit to the economy while maintaining the stability and soundness of the sector.

Strategy and Performance

This was a period that required careful strategic actions to steer the Bank through the challenges and ensure its sustainable growth. With the guidance of the CBSL and our unwavering commitment to supporting rural entrepreneurs through financial assistance, we remained focused on helping our valued clients during these tough times. We provided various concessions, including low-interest rates on loan products, moratoriums, and flexible pay ment terms, to alleviate the financial burden on customers who qualified for these relief measures.

Given our focus on empowering rural customers in micro, small, and medium-scale industries, as well as women in agriculture, livestock, and fisheries, we faced challenges in competing with the high-interest rates offered by other commercial banks. Additionally, many of our customers had fixed-interest loans, making it difficult to adjust our lending rates. We were fully aware of the increased economic strain on our clients due to the country's ongoing situation and were committed to easing their financial burden. As a result, we decided to raise the interest rates for only two products: 'Thilina' (personal loans) and 'Detusavi' (pensioner loans), by a modest (2-3%). We also offered special rates for selected products, but these would apply only up to one year. Additionally, we continued to support specific sectors with the government-backed refinance scheme for loan portfolios.

As loan defaults increased during this period, loan recovery became a significant challenge for the Bank, requiring us to implement strategic recovery measures to recover outstanding payments. Throughout the review period, our Net Non-Performing Loans (NPL) ratio remained at 6.5%. In response, we launched special recovery campaigns while also reinforcing our loan appraisal process to carefully assess the repayment capacity of borrowers before approving new loans.

Despite the challenges faced, the Bank benefited from the increase in deposit rates, which assisted to attract new customers and retain deposits of existing customers. As a result, our treasury operations recorded a significant improvement, achieving 203% of the budgeted targets. This financial gain provided much-needed relief amidst declines in other areas. For the fiscal year, we recorded a high profit after tax of Rs. 1,349 Mn , a substantial increase from Rs. 306 Mn in the previous year. Customer deposits grew by 12%, reaching Rs. 210 Bn, while loans and receivables rose by 13.93%, totaling Rs. 215 Bn. Our total assets increased by 16.07%, and we successfully maintained our Capital Adequacy Ratio above the industry's minimum requirement.

During this period, the Bank implemented strict cost-control measures to lower its cost base, operating with a reduced budget and cutting non-essential expenses in line with the guidelines set by the Ministry of Finance for state-owned entities.

Key Milestones

Despite the challenging operating environment, we remained focused on our growth objectives. We enhanced the customer experience through branch rebranding and relocated some branches to improve accessibility. In terms of technology, we initiated a loan origination system, following the successful implementation of a centralized collection management system during the financial year. We also initiated the RDB Payment App, set to be fully implemented in the next financial year. Furthermore, we began the process of introducing the Visa Debit card, which is currently in progress.

Our initiatives in the IT sector were recognized through several prestigious awards during the year. These included the Gold Award at the LankaPay Technnovation Awards 2023, the Gold Award for Best LankaPay Card Implementer of the Year, and the Merit Award for Best Common ATM Enabler of the Year.

Another notable achievement was the "Diri Abimani Program," held at the Central Bank Auditorium in March 2023. This initiative aimed to identify exceptional women entrepreneurs at the district, provincial, and national levels, and honor them with financial rewards and other incentives.

The Bank's ranking improved from 44th place in 2021 to 43rd place in 2022, according to the LMD Brand Annual report.

Looking Forward

As the economy showed signs of gradual recovery towards the end of the year, the role of RDB as a key enabler of rural entrepreneurs, including women in the agriculture, livestock, and fisheries sectors, became even more crucial in driving the country's economic growth. Therefore, we will remain committed to reaching underserved customer segments in these sectors who face challenges in accessing financial services. Alongside this, we will continue to accelerate our technological advancements, having fully automated our loan origination system to improve customer service. We are also in the process of implementing a new core banking system.

The Bank is also exploring the expansion of its branch network into new geographical areas to reach a broader customer base by increasing visibility and improving convenience for our clients. As part of this initiative, we are in the process of opening two new branches in the Point Pedro and Chavakachcheri areas. In addition, to strengthen the Bank's long-term capacity, RDB is considering a merger with another financial institution, in line with government directives

Acknowledgements

In conclusion, I would like to express my sincere gratitude to the Chairman and the Board of Directors for their valuable guidance and leadership in navigating the Bank through a challenging period. I also extend my heartfelt appreciation to the officials of the Central Bank of Sri Lanka, the Ministry of Finance, and other government institutions for their ongoing support and collaboration with me and the Bank throughout the financial year.

I am truly grateful to our esteemed customers for their continued trust in us and our commitment to supporting their financial well-being. We remain dedicated to assisting them through difficult times, offering reassurance and strength to help them navigate and overcome financial challenges

Finally, I would like to express my heartfelt gratitude to all our dedicated employees for their unwavering commitment and hard work in helping our clients achieve financial empowerment while striving to meet the Bank's core objectives. The collective efforts of our team have played a crucial role in steering the Bank through difficult times. As we look ahead, I am excited about the opportunities that lie ahead, driven by the improving operating environment in the near future.

P.S. Edirisuriya
General Manager/CEO
(Covering up of Duties)

STEWARDSHIP

BOARD OF DIRECTORS

MR. M. MAHINDA SALIYA

Chairman
(Retired on 31.12.2022)

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

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

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

Mr. K. Raveendran

Non Independent / Non Executive Director
(Resigned w.e.f. 13.10.2023)

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

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

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

Other Current Appointments

- Member of the governing council of the Association of Professional Bankers (APB) of Sri Lanka.
- Alternate Member of the Governing Board of the Institute of Bankers of Sri Lanka (IBSL).

BOARD OF DIRECTORS

Mr. W.M. Karunaratne

Independent / Non Executive Director
(Retired on 31.12.2022)

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

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

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

Prof. H.M.W. Ariyarathna Herath

Independent/ Non-Executive Director
(Retired on 31.12.2022)

Prof. H.M.W.Ariyarathna Herath holds a Bachelor of Arts Special Degree in Economics from the University of Peradeniya,Master of Science in Development and Resource Economics from Norwegian University of Life Science and Doctor of Philosophy from Post Graduate Institute of Agriculture, University of Peradeniya. He is prominent academia and a researcher in the fields of Development Economics, Money and Banking,Project 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 Center,University of Peradeniya as a Deputy Director. Currently he holds the position of the Head of the Department of the Department of Economics and Statis-tics,at University of Peradeniya.

Prof. H.M.W. Ariyarathna Herath has served as a consultant and prepared reports for many national and international organizations such as Pathifinder Foundation Colombo; Plan International Sri Lanka; UNDP, State Minis-try of Skills Development, Vocational Education, Research & Innovation, Colombo and Central Provincial Council.

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

BOARD OF DIRECTORS

Mr. Lalith Abeysiriwardhana

Independent / Non Executive Director (Re-appointed on 01.02.2023)

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 holds a degree in Bachelor of Law (LL.B) from University of Colombo.

At present Mr.Abeysiriwardana holds the position of Director at several private entities such as 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 (Pvt) Ltd.

Dr. Nirmal De Silva

Independent- Non Executive Director (Resigned w.e.f. 04.04.2022)

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

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

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

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

Other Qualifications

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

BOARD OF DIRECTORS

Mr. G.A.Jayashantha

Non Independent / Non Executive Director (Resigned w.e.f. 11.09.2023)

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

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

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

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

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

Mrs. Hiranthi Karunaratne

Independent / Non Executive (Resigned w.e.f. 13.09.2023)

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

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

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

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

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

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

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

BOARD OF DIRECTORS

Mr. M.S.S.S.Fernando

Non Independent / Non Executive
(Resigned w.e.f. 29.07.2022)

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

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

Ms. V.K. Narangoda

Non Independent / Non Executive
(Resigned w.e.f. 22.12.2022)

Ms. Krishani Narangoda joined the People's Bank in 1987 as a Management Trainee and counts over 35 years of service in the Bank She covered the areas of Branch Banking, Overseas Customer Services, Off-Shore Banking and Corporate Banking under various management capacities and presently serves as Deputy General Manager and covers the areas of Commercial Credit, Commercial Banking, SME , Development Finance and Micro Finance.

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

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

BOARD OF DIRECTORS

Mr. W.A. Sarath Kumara

Non Independent / Non Executive (Resigned w.e.f. 27.09.2023)

Mr. W.A. Sarath Kumara, a senior executive officer in the public service who has over 36 years of experience in Sri Lanka Accountants' Service, assumed his duties as the Deputy Secretary to the Treasury on 01st August 2022.

Mr. Sarath Kumara holds a BSc.in Management and valuation degree from the University of Sri Jayewardenepura and a Post-graduate degree (Masters) in Public Management from Sri Lanka Institute of Development Administration (SLIDA). He is also the first in the seniority list for the last five years in the Sri Lanka Accountants' Service and currently holds a special grade in the service.

He joined the Sri Lanka Accountants' Service in 1986 and worked in various positions during his service over three decades. He worked as Accountant and Deputy Registrar of Companies (Finance) at Department of Registrar of Companies and later became Director, Internal Audit Investigation and Budgetary Control at Ministry of External Affairs in 2005 handling management, administration and monitoring aspects of Sri Lankan Embassies. He was then positioned at the Embassy of Riyadh-Saudi Arabia as Minister, Deputy Ambassador and Charge d' Affaires from 2008 to 2012.

After five years of serving the diplomatic services, Mr. Sarath Kumara worked as the Chief Accountant at Ministry of Disaster Management in 2013 and he assumed services as the Chief Accountant at Ministry of Economic Development in 2014.

Prior to being released for the post of Deputy Secretary to the Treasury, he worked at the Prime Minister's Office in the capacity of Chief Financial Officer over 7 years.

Being in the Accountancy Service for over three decades, Mr. Sarath Kumara has gained outstanding experience in public finance management, public administration and accounting, annual budgeting, management of cash flow statements as well as compilation of annual financial statements in keeping with generally accepted accounting principles having held executive positions in the field of public financial management.

During his career, he has performed duties as a Financial Specialist for numerous foreign funded projects, was also a member of many Cabinet Appointed Procurement Committees (CAPC) at various Ministries, and served in many Governing Bodies in various capacities.

CORPORATE MANAGEMENT TEAM

Mr P.S. Edirisuriya

General Manager/CEO (Covering up Duties) & Chief Financial Officer

Mr Edirisuriya graduated from the University of Sri Jayewardanepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possesses a Master of Business Administration Degree from the University of Colombo. Mr Edirisuriya counts over 32 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. From the date of 05th September 2022, he was appointed to cover up the duties and responsibilities of General Manager/CEO of Pradeshiya Sanwardhana Bank in addition to the position of Chief Financial Officer.

Mr D.M.T.S. Kumara

Head of Recovery & Deputy General Manager-Operations & Business Support Services (Cover up duties)

Mr Kumara has over 31 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 the University of Sri Jayawardhanepura. He holds Master of Arts from the University of Kelaniya. Also passed Intermediate Examination from the Institute of Bankers of Sri Lanka.

Mr A.H.M.G. Abeyrathna

Deputy General Manager - Credit & Special Projects and Policy Implementation

Mr A H M G Abeyrathna graduated with a Special Commerce Degree from the University of Kelaniya, Sri Lanka, in 1986. He has successfully completed Master of Business Administration from the 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 in Sabaragamuwa & North Central Provinces. He has over 35 years of experience in banking sector.

CORPORATE MANAGEMENT TEAM

Mr D.K.S. Serasinghe
Chief Human Resources Officer

Mr Krishantha Sanjeewa Serasinghe, has more than 21 years' experience in the field of HR since 1999, joined Regional Development Bank in January 2021. He holds a B.Sc. Special Degree in Human Resources Management from the University of Sri Jayewardenepura and Master of Science in Management from the same University. He has successfully completed the fellowship programme in Human Resources Management through Total Quality Management in Tokyo, Japan. Mr Krishantha started his career in corporate and middle management positions in public and private sector organizations. In 2014/2015 he has worked as Deputy General Manager- HRD of National Savings Bank.

Mr E.A.D. Janitha Priyashantha
Chief Internal Auditor

Mr. Priyashantha is a fellow member of The Institute of Chartered Accountants of Sri Lanka and an Associate Member of Institute of Bankers of Sri Lanka and a Certified Member of the Institute of Chartered Management Accountants Australia and holds a B Com Special Degree with a Second Upper Division from the University of Kelaniya.

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

Mr. Janitha Priyashantha joined Regional Development Bank since June 2022.

SENIOR ASSISTANT GENERAL MANAGERS / REGIONAL GENERAL MANAGERS

Senior Assistant General Managers

1. Mr G.D.S. De Silva

Senior Assistant General Manager - Credit Administration

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

Regional General Managers

1. Mr R.M.R. Randeniya

Regional General Manager-
North Western Province

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

2. Mr B.G.W.A. Kumara

Regional General Manager -
Uva Province

Regional General Manager - Eastern Province (Covering up Duties)

- B.Sc. Public Administration (Special) Degree -University of Sri Jayewardenepura
- Master of Arts - University of Kelaniya
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)

3. Mr M.M.M.S. Ananda

Regional General Manager -
North Central Province

- Associate Membership of Institute of Bankers of Sri Lanka (AIB)

4. Mr M.A. Gnanarathne
Regional General Manager -Southern Province

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

5. Mr K.C.D. Dharmapriya
Regional General Manager -Central Proince

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

6. Mr G.M.B.C. De Silva
Regional General Manager -Uva Province

- B.Com Degree - University of Sri Jayewardenepura
- Fellow Membership of Institute of Bankers of Sri Lanka (FIB)
- DBF - Institute of Bankers of Sri Lanka
- MBA - Wayamba University of Sri Lanka
- Certificate Course in Micro Finance

7. Mr P.H. Wijethilaka
Regional General Manager -Sabaragamwa Province

- MBA National School of Business Managment (NSBM)
- B.Sc. (State Mgt.& Valuation) Degree - University of Sri Jayewardenepura
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)

8. Mr C.L.C. Muthubanda
Regional General Manager -Eastern Province

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

ASSISTANT GENERAL MANAGERS/ HEADS OF DIVISIONS

Head of Divisions

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

Assistant General Manager - Compliance

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

2. 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
- Fellow Member of The Association of Accounting Technicians of Sri Lanka
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)
- Fellow Member - Institute of Certified Management Accountants of Sri Lanka (CMA)
- Diploma in Treasury and Risk Management at IBSL

3. Mrs R.M.T. Rajapaksha

Board Secretary

- Bachelor LLB - University of Colombo
- PGD-HR University of Colombo
- Attorney at Law
- Notary Public
- Company Secretary

4. Mrs A.R.R. Piyasekara

Assistant General Manager-Legal

- Attorney at Law
- Registered Company Secretary
- Notary Public & Commissioner for Oaths
- Master of Laws (LLM) - University of Colombo
- Master of Science (MSc) - University of Moratuwa
- Post Graduate Diploma in Labor Studies (PgDLS) - University of Colombo
- Bachelor of Law (LLB-Special) - University of Colombo
- Diploma in Compliance - Institute of Bankers of Sri Lanka
- Diploma in Corporate Banking - Institute of Bankers of Sri Lanka
- Chartered Member (CMILT) - Chartered Institute of Logistics & Transformation of SL
- Life Membership - Association of Professional Bankers (APB) in Sri Lanka

Assistant General Managers

1. Mr D.S.P.C. Handunhewa
Assistant General Manager
- Operations & Business Support Services

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

2. Mr P.S.T. Ranathunga
Assistant General Manager
- Credit

- BA (Special) Degree - University of Colombo
- MA University of Sri Jayewardenepura

3. Mr K.B.Wijerathna
Assistant General Manager
- Central Province

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

4. Mr W.P.M.K. Dasantha
Assistant General Manager
- Engineering

- B.Sc. (Engineering.) - Honours. - University of Moratuwa
- PGDip. inTechnology (Construction Management)- Open University of Sri Lanka
- MBA - PIM (University of Sri Jayewardenep-ura)
- Corporate Member and Chartered Engineer of Institution of Engineers (SL)
- Associate Member of Society of Structural Engineer (SL)
- Chartered Member of the Chartered Institute of Logistic & Transport (UK)

5. Major General Jagath Pakshaweera
Chief Security Officer

- RSP, VSV, USP (Rtd)

6. Mrs W.M.I.K. Abeyrathne
Assistant General Manager
- Procurement

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

7. Mr H.M.P.A.G.U. Bandara
Assistant General Manager
- Uva Province

- Associate Membership of Institute of Bankers of Sri Lanka (AIB)
- PGDip. in Management - University of Rajarata

8. Mr R.M.D.S.P.Mahanama
Assistant General Manager - Western Province

- PGDip. In Business Administration - University of Peradeniya
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)
- Associate Member of The Institute of Marketing

9. Dr A.S.K.B.Rathnayake
Assistant General Manager - IT Business Transformation

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

10. Mr M.D.G.Karunarathna
Assistant General Manager- IT

- B.Sc. Degree - University of Kelaniya
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)
- Post Graduate Executive Diploma in Bank Management - IBSL

11. Mrs S.G.G. Lakshmi
Assistant General Manager- Finance

- B.Sc. - Business Administration (Special) Degree - University of Sri Jayewardenepura
- PGEXDip. in Bank Management - IBSL
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)
- Licentiate Level Examination - The Institute of Chartered Accountants of Sri Lanka

12. Mr K.D.H.A. De Silva
Assistant General Manager - Recovery

- Higher National Diplomain Accountancy
- DBF - Institute of Bankers of Sri Lanka
- PGEXDip. in Bank Management - IBSL
- MBA - Asia e University, Malaysia
- National Certificate in Draftsmanship - Techncal Collage - Sri Lanka
- Fellow Membership of Institute of Bankers of Sri Lanka (FIB)

13. Mrs P.E.D.S. Perera
Assistant General Manager - Human Resoures Development & Services

- Associate Membership of Institute of Bankers of Sri Lanka (AIB)
- Post Graduate Executive Diploma in Bank Management - IBSL

14. Mr B.W.M.A.N.W. Kumarasiri
Assistant General Manager- Investigation

- B.Com (Special) Degree- University of Colombo
- Diploma in Credit Management - Sri Lanka Institute of Credit Management
- CGAP Trainer & Consultant

15. Mr L.A.R. Fernando

Assistant General Manager - Marketing

- BA Degree - University of Sri Jayewardenepura
- Master in Human Resource Management - University of Colombo
- Master of Arts (MASS-Communication)- University of Kelaniya
- Diploma in Writer-ship & Communication - University of Sri Jayewardenepura
- Associate Membership of Institute of Bankers of Sri Lanka (AIB)

16. Mr W.U.S. Abeysinghe

Assistant General Manager - Sabaragamuwa Province

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

17. Mr E.P. Ranjith Kumara

Assistant General Manager- Internal Audit

- B.Com (Special) Degree- University of Kelaniya
- IABF - Institute of Bankers of Sri Lanka

MANAGEMENT DISCUSSION AND 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 the North and East. The development of the country and its people are the focus of the Bank. So, the Bank is committed to empowering them and thereby developing the Nation through its iland-wide branch network of 272 branches.

Profitability

Profit after Tax of the Bank has increased by 340.54% compared to the previous year. In the year 2022, operating profit increased to LKR. 1,998 Mn, which is 3.70% more than the operating profit of LKR. 1,926 Mn recorded in 2021. Return on Assets (ROA) before tax has recorded as 0.47% that stood at 0.78% in 2021. Also, the Bank reached total assets of LKR. 285 Bn as at 31 December 2022 which recorded 16.07% growth over the previous year.

Profitability over the Budget

Item	Actual LKR. 000	Budgeted LKR. 000	Change
Gross Income	36,202,750	32,713,897	10.7%
Operating Profits	1,998,116	5,649,666	-64.6%
Profit after Tax	1,349,395	2,059,285	-34.5%

RDB's Quarterly Financial Performance

RDB's quarterly financial performance has improved slightly during the year 2022.

Item	2022 - LKR .000 31- Dec	30-Sep	30-Jun	31-Mar	31-Dec-21 LKR.000
Net operating Income	13,355,357	9,939,538	6,438,480	3,321,852	11,030,507
Profit Before Tax	359,115	884,482	652,393	442,532	1,926,781
Profit /(Loss)After Tax	1,349,394	241,378	208,151	212,039	306,302
Loans & Receivables	198,008,145	197,167,550	190,010,530	183,039,517	189,039,666
Customer Deposits	210,301,323	207,365,025	204,908,444	190,694,583	187,752,465
Total Assets	285,395,150	284,091,435	272,363,082	258,438,595	245,889,512
Shareholder's fund	16,226,127	15,634,702	15,601,475	17,708,727	15,393,322

Income

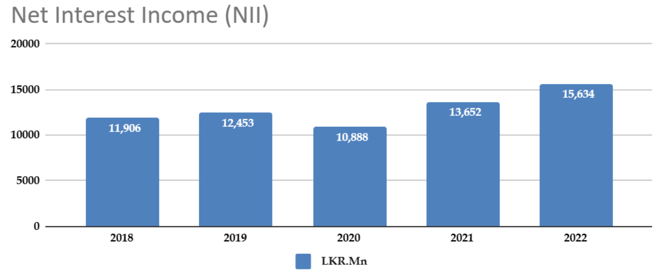
The total income of the Bank significantly increased by 47.81% to LKR. 36.20 Bn from LKR. 24.49 Bn. The Bank achieved the total income higher than the previous financial year even in the tough economic condition in the country.

Composition of Total Income

Item	2022 LKR. 000	2021 LKR. 000	Change
Interest Income	35,273,433	23,545,299	49.81%
Fee and Commission Income	806,548	935,136	-13.75%
Other Operating Income	122,768	12,332	895.52%
Total Income	36,202,749	24,492,767	47.81%

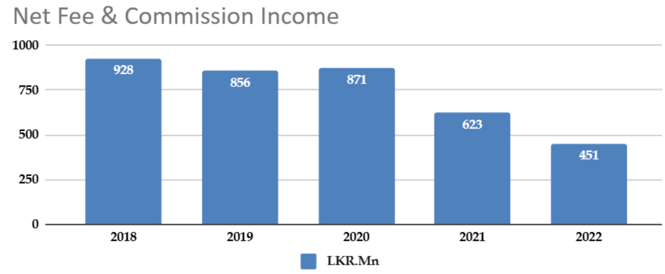
Net Interest Income (NII)

Net interest income increased by 14.52% in the financial year of 2022, and it increased from LKR. 13,652 Mn to LKR. 15,634 Mn.



Net Fee and Commission Income

During the financial year 2022, Net Fee and Commission Income decreased by 27.55%. It declined to LKR.451 Mn compared to the results of LKR.623 Mn in financial year of 2021.



Taxation

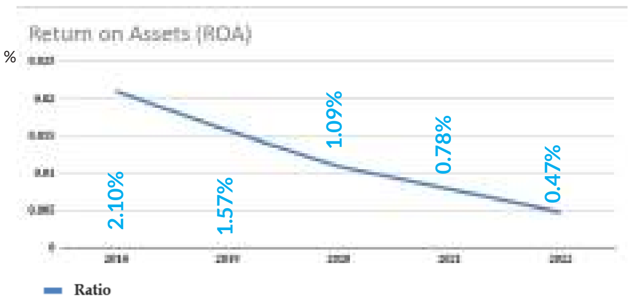
Item	2022 LKR.000	2021 LKR.000	Change
VAT on Financial Services	1,561,475	1,151,277	35.6%
Social Security Contribution Levy	77,526	-	-
Income Tax	(990,279)	469,201	-311.1%
Total Tax Expense	648,722	1,620,479	-60.0%

During the financial year 2022, the Bank has incurred Value Added Tax on financial, amounting to LKR. 1,561 Mn and Income Tax reversal amounting to LKR. 990 Mn. A total of LKR. 648 Mn has been incurred during the year as taxes.

FINANCIAL REVIEW

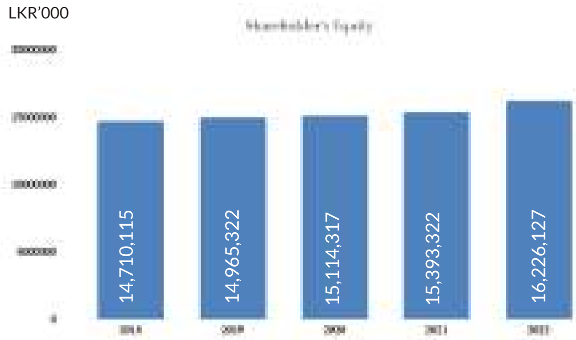
Return on Assets (ROA)

The Bank has recorded ROA (operating profits) of 0.47% for the financial year 2022 despite of 0.78% recorded for the financial year 2021.



Total Shareholders' Equity

Total shareholders' equity of the Bank arrived in LKR. 16,226 Mn in the year 2022 against LKR. 15,393 Mn recorded in the year 2021.



Return on Equity (ROE)

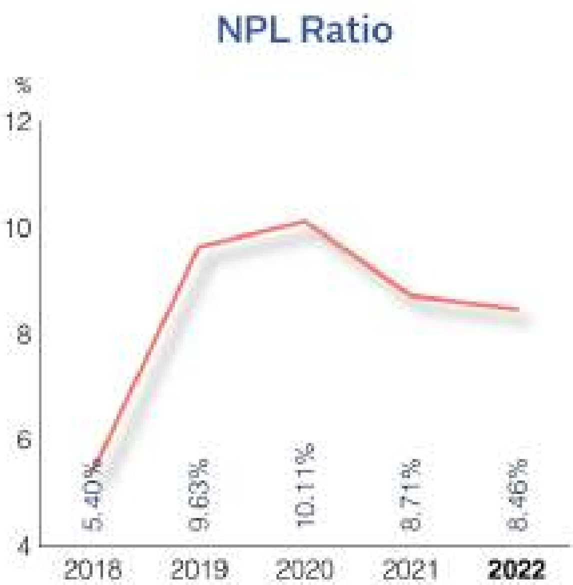
Increasing of the profit after tax by LKR.1,043 Mn in financial year 2022, has resulted slight increase in ROE from 1.99% to 8.54% compared to the previous financial year.

Total Assets

The Bank recorded a growth of 16.07% in total assets as at the end of the financial year 2022, over the corresponding year. Accordingly, the total assets base increased from LKR.245 Bn to LKR.285 Bn during the financial year.

Assets Quality

The Non-Performing Loan Ratio (NPL) of the Bank slightly dropped up to 8.46% as of 31 December 2022 irrespective of 8.71% at the end of previous year



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	2022	2021
Statutory Liquid Assets Ratio (SLAR)	**27.83%**	26.18%

The Bank has consistently maintained its liquidity levels well above the regulatory requirements despite of tight situation of the country during the year 2022.

CUSTOMER AND RELATIONSHIP REVIEW

Loans & Advances Growth

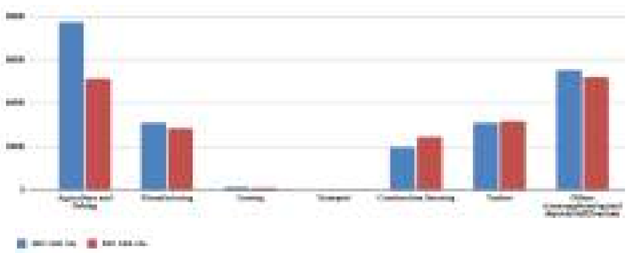
Loans & Advances Portfolio Analysis - By Industry

Category	2022 LKR. Mn	2021 LKR. Mn
Agriculture and fishing	**77,426**	51,315
Manufacturing	**30,675**	28,605
Leasing	**1,382**	969
Transport	**76**	78
Construction/ Housing	**19,646**	24,484
Traders	**30,800**	31,526
Consumptions/ Against Deposit/ Staff/ Tourism	**55,368**	52,062
Total	**215,373**	189,040

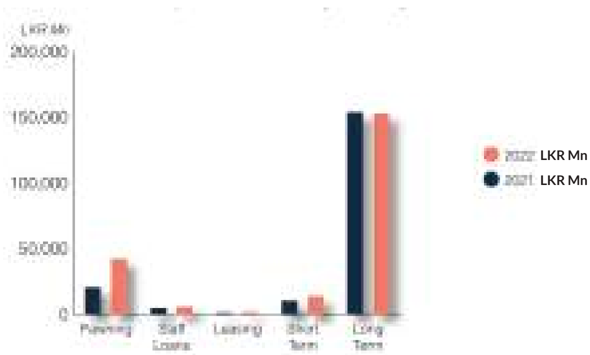
Loans & Advances Portfolio Analysis - By Product

Category	2022 LKR. Mn	2021 LKR. Mn
Pawning	**42,234**	20,174
Staff Loans	**5,501**	4,615
Leasing	**1,398**	969
Short Term	**13,717**	9,989
Long - Term	**152,523**	153,292
Total	**215,373**	189,040

Loans & Advances portfolio Analysis - By Industry



Loans & Advances portfolio Analysis - By Product



Recoveries

During the year 2022, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio which was around 8.46% of the total portfolio at the end of 2022. As a result of the special efforts made by the bank, the bank was able to manage the stress diligently that arisen due to high volatility of the country's economic situation. Hence, the bank managed to maintain the NPL ratio at 8.46% as of 31st December 2022 whilst achieving the slight growing of the credit portfolio

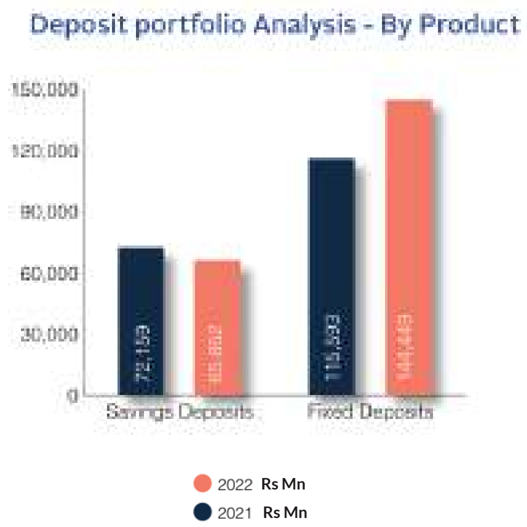
Non-Performing Category	2022 LKR. Mn	2021 LKR. Mn
Special Mention	**2,471**	1,230
Substandard	**1,501**	3,367
Doubtful	**2,183**	2,223
Loss	**11,662**	9,501
Total Non-Performing	**17,817**	16,322
NPL Ratio (%)	**8.46%**	8.71%

Deposit Growth

Deposit Base of the Bank increased to LKR. 210 Bn, that represents a 12.01% growth over the previous year. The major contributor to this was fixed deposits, which grew by 25% whilst saving deposits decreased by 9%.

Deposit Mix

Type of Deposit	2022 LKR. Mn	2021 LKR. Mn
Savings deposits	**65,852**	72,159
Fixed deposits	**144,449**	115,593
Total	**210,301**	187,752



Credit & Recoveries

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

The Bank therefore has executed a strategy to meet the given objectives in all activities of the Bank including lending operations. Terms of the 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 services on Management and marketing.Credit plus services also helps to reduce risk of lending and thereby reduce the dependency on securities for lending.

In addition to that, under the C&R, operating such a crucial profitability object called Bancassurance Unit. The Bank continued to generate the commission income by channeling insurance activities relating to the loans granted by the Bank during 2022. Commission details are mentioned below.

Se: No:	Insurance Company	From: 01.01.2022 up to: 31.12.2022	%
1	SRILANKA (LIFE)	36,695.91	0.12%
2	SRILANKA (GENARAL)	1,199,994.89	3.80%
3	SANASA (LIFE)	1,036,998.60	3.28%
4	SANASA (GENARAL)	548,757.55	1.74%
5	CO-OP	3,633,811.89	11.50%
6	CEYLINCO (LIFE)	1,414,553.95	4.48%
7	CEYLINCO (GENARAL)	2,058,279.91	6.52%
8	ALLIANZ (LIFE)	933,062.48	2.95%
9	ALLIANZ (GENARAL)	291,585.93	0.92%
10	SOFTLOGIC (LIFE)	13,795,564.69	43.68%
11	AGRERIAN	0.00	0.00%
12	PEOPLES	1,141,090.19	3.61%
13	LOLC (LIFE)	3,367,549.60	10.66%
14	LOLC (GENARAL)	726,661.50	2.30%
15	JANASHAKTHI (LIFE)	293,249.68	0.93%
16	FAIRFIRST	209,340.98	0.66%
17	ARPICO	896,223.50	2.84%
Total		31,586,637.39	100.00%

CUSTOMER AND RELATIONSHIP REVIEW

Refinance & Interest Subsidy Loan Schemes

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

SAUBHAGYA	SMILE 111 RF	SWASHAKTHI
SMELoC We fi	SEPI PHASE 11	Moragahakanda
SMELoC RF	DAD	Mahaweli saviya
PAMP RF	KRUSHI SHAKTHI	NCRCS
KAPRUKA AYOJANA	RSPGLOC	STARR
KAPRUKA JAYAISURA	SAPP	Thurunu Diriya

Collaborating with ADB

There are two program were implemented with ADB Named SMELoC additional financing Phase III & Strengthening Regional Development Bank Project (SRDBP).

Under the SRDBP ADB funds to enhance and enriched RDB while funding to SME sector lending. In SMELoC additional financing Phase III derives three categories as covid 19 emergency response facility for project which are affected by the pandemic, Small Tea holder development project and SME sector development project.

Environmental and Social Management System (ESMS)

The RDB commenced operationalizing the Environmental and Social Management System (ESMS) in November 2019 with screening of Environmental and Social Due Diligence assessments for its SRDBP loan scheme which highlights the commitment to screen projects for environmental and social risk along with financial screening. This ESMS implementation will ensure that the RDB's activities are following its national as well as the funding agencies environmental and social standards.

Further to that with the development of inner bank capacity, the RDB is willing to embed the ESMS application for entire banking products after setting up it in the Western Province as a pilot.

Description	Total no. of Loan	% As total no. of loan	Disbursed amount (Rs. Mn)	% From total disbursement
SRDBP Cumulative Disbursements	9,709	100%	8055.92	100%
First time borrower (Not previously borrowed)	232	2.39%	191.1	2.37%
Women - led businesses	3,036	31.26%	1,334.30	16.56%
Outside Colombo	9,650	98.47%	7,256.80	90.08%
Working capital loans	66	0.68%	54.4	0.68%

RDB Leasing

RDB leasing has been operating quite successfully in 2022. All branches tend to execute their strategies to enhance the leasing portfolio of their branches very successfully.

Leasing Portfolio as at 31.12.2022 is 1.3 bn.

Recoveries

During 2022, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio, within a difficult time of the country. As a result of the special efforts made and facing diligently the stress arisen due to certain unfortunate situation experienced by many of our customers, the Bank managed to maintain the NPL ratio at 8.46% as at 31 Dcember 2022.

INFORMATION TECHNOLOGY REVIEW

IT Achievements in Year 2022

In terms of information and communication technology, the year 2022 marked a pivotal moment for our bank. It allowed us to make strategic choices that not only propelled the development of our ICT services but also enhanced client services through technological advancements. Let's delve into the transformative journey we undertook in the realm of digital banking and technological infrastructure.

Digital Banking Initiatives

Aligned with the Central Bank of Sri Lanka's digital banking roadmap, we successfully introduced the 'RDB QR' payment method and the Just Pay payment facility via any mobile app. These additions not only streamlined transactions for our customers but also exemplified our commitment to embracing cutting-edge solutions.

EMV Chip-Based ATM Cards

In 2022, we issued over 58,000 new EMV chip-based ATM cards, pushing our total active ATM card base to an impressive 348,548 by year-end. This underscores our dedication to providing secure and efficient financial transactions for our expanding customer base.

Collection Management

In November 2022, we were able to start our first call center specially focusing on loan recovery activities using a collection management system.

Compliance and Security

To meet compliance requirements, we introduced anti-money laundering (AML) software and implemented systems for transaction information reports, aligning with the new GOAML project. These measures ensure the highest standards of financial security, protecting both our institution and our valued customers.

Communication Systems and Cybersecurity

Our commitment to staying at the forefront of technological advancements resulted in groundbreaking improvements. The successful installation of SD-WAN across our branches revolutionized communication, increasing capacity and optimizing efficiency. Moreover, the implementation of a WEB access firewall enhances our cybersecurity, ensuring a secure and resilient digital environment for all our stakeholders

Server Virtualization

The introduction of server virtualization (VMware) in 2022 reduced time, administrative costs, and space dedicated to setting up servers for testing and installing new software. This move not only signifies a cost-effective approach but also prepares us for future technological requirements.

Email Service Expansion and Learning Management System

Our commitment to enhancing internal communication was evident in the upgrade of our existing email service, providing email facilities to all employees. Additionally, leveraging our established learning management system, we conducted online examinations for grading related to the year 2022, increasing transparency and efficiency in our processes.

As we move forward, our unwavering commitment to excellence remains steadfast. We embrace emerging technologies to better serve the needs of our customers and uphold the trust you have placed in us. The year 2022 was not just a year of technological advancements; it was a testament to our dedication to innovation, security, and the pursuit of excellence.

MARKETING REVIEW

Products and Services

RDB KEKULU – MINOR SAVINGS ACCOUNT

RDB Kekulu account is exclusively designed for children under 14 years of age. RDB offers a till forevery new account as an attraction. Further, there is a wide range of gift items such as exclusively designed stationary packs , school bags and gift vouchers on offer for balances in the accounts at different levels.In addition , RDB establishes school savings centresto motivate children to practice saving habit from their childhood. RDB offers gifts/ prizes for account holders who obtain best results at the Grade 5 scholarship examination. Furthermore, educational seminars are arranged for the account holders who sit for said examination.

RDB 4 TEEN PLUS ACCOUNT

RDB 4 teen Plus Account has been specially designed for teenagers of 14 years and above to inculcate saving habits among teenage community. A higher interest rate with the additional bonus interest compared to the growth of the balance in the account is offered by RDB 4 teen Plus Account. As an ATM card is issued, the children above 14 have got an opportunity to withdraw money for their urgent financial needs and with every withdrawal by the ATM Card an SMS message is sent to guardian's mobile phone giving withdrawal details. Loan facilities may be obtained by the young community to fulfil their dreams of owning a house, vehicle, furniture, business, buying electronic equipment and accessories, for educational needs, for foreign tours.

RDB LIYA SAVIYA – WOMEN SAVING ACCOUNT

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

RDB LIYA SAVIYA PLUS – WOMEN INVESTMENT SAVING ACCOUNT

RDB Liya Saviya Plus Investment Account is a savings build-up scheme specially designed for women above 18 years of age. The objective of this account is empowering women with a secured medium term investment opportunity and special credit schemes. This is a five year investment plan that offers attractive gifts. The account holders are eligible to enroll "Diri Abhimani - Best Women Entrepreneur Competition"

RDB VICTORY ACCOUNT

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.

RDB NEWLIFE PENSION PLAN

RDB New Life Pension Plan was introduced as a special savings account where a higher interest can be obtained. It is dedicated as a pension plan. Interest rate will be revised bi-annually according to the 6 Month Average Weighted Deposits Rate (AWDR) 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. This account can be opened at the age of 16 years and can be deposited according to the account holder's cash flow. On retirement, a part or the whole of this savings can be used to create regular retirement income. Balance of the account will be utilized as the pension benefit monthly.

RDB UTHTHAMA SENIOR CITIZEN'S SAVINGS ACCOUNT

RDB offers competitive interest rate on RDB Uththama Senior Citizen's Savings Account. With an initial deposit of Rs. 500/-, any individual above 55 years of age is eligible to open Senior Citizen's savings account. Also, there is an opportunity to pay own utility bills without service charges. Account holders are entitled to free medical check-ups and pensioners are entitled to obtain "RDB Detusavi" credit facility

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 on deposits and a special loan scheme customised for the target segment.

DB JAYA NIDHANA AVINGS ERTIFICATE

This is a product of RDB which attracts customers of all economic levels. This is a certificate which gives the face values amounting to Rs.5,000/-, Rs.10,000/-, Rs.25,000/-, Rs.100,000/-, Rs.500,000/- Rs.1,000,000/- at a maturity. The special feature of this Savings Certificate is that it can be renewed at maturity at the prevailing interest rate. RDB Jaya Nidhana certificates can be opened as individually and jointly for personal deposits only.

RDB FIXED DEPOSITS

RDB fixed deposits are identified as a popular mode of investments among individual and corporate customers as well. FDs are available at RDB for periods of 1, 2, 3, 4 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 MAX FIXED DEPOSIT

RDB introduced "RDB Max" Fixed Deposit with the competitive interest rate to attract new long term deposits with the purpose of increasing the deposit base of the bank.

MARKETING REVIEW

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. 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. These transactions are carried out via electronic portable hand held device and the transaction is automatically updated to the Bank's system.

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.

RDB RAN SARANA

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

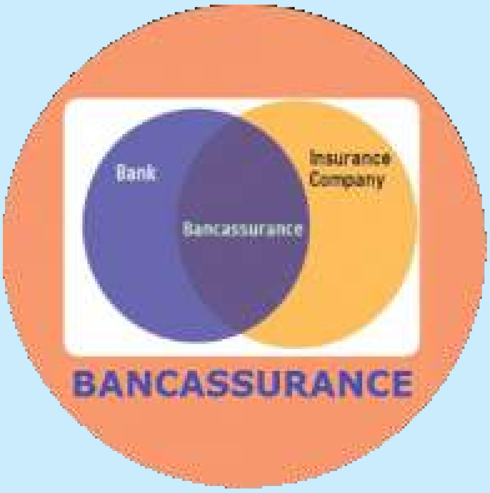
WAREHOUSE FACILITIES

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

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

RDB BANCASSURANCE

RDB facilitates its customers to choose tailor made insurance products or insurance benefits from wide range of insurance companies through RDB Bancassurance Unit.



MOBILE BANKING UNIT

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

RDB easy Zone ATM | CDM lanka pay

ATMS AND CDMS

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

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

Seilama.lk
සෙයිලම | செய்லம

SEILAMA.LK

A website called Seilama.lk was started with the aim of promoting products and services of our entrepreneurs online. Promotion activities have been accelerated by increasing the capacity of seilama.lk in parallel to introduction of QR transactions to our merchant community and customers. Identification, collection and entry of information of entrepreneurs covering every district was done at the initiate of seilam.lk. In the future, RDB intends to provide buying and selling opportunities to entrepreneurs and buyers.

MARKETING REVIEW

New Product Development

RDB MAX

RDB has introduced RDB Max 100 Days, RDB Max 6 Months and RDB Max 10 Months with attractive interest rates under the flag of RDB Max Fixed Deposit.

RDB MITHURU PLUS LOAN SCHEME

RDB launched Mithuru Plus Loan Scheme to the business Community in Pettah . This provides financial assistance to traders in the Pettah market at low interest rate and can settle this facility on daily, weekly or monthly basis as per their requirement.

SOCIETY AND ENVIRONMENTAL REVIEW

Corporate Social Responsibility – CSR

Plant Distribution Programme

All RDB branches have distributed plants on 3rd February 2022 at branch premises for their valuable customers to commemorate 74th Independence Day.

Avurudu Trade Fairs

RDB has conducted trade fairs in key cities in every province to assist RDB entrepreneurs to find market and increase sales volume for their products and services.

Kalladi Old Bridge Batticaloa

Bogambara Cultural Arcade, Kandy

Embilipitiya New Ground

Ambalantota Pradeshiya Sabha Ground

SOCIETY AND ENVIRONMENTAL REVIEW

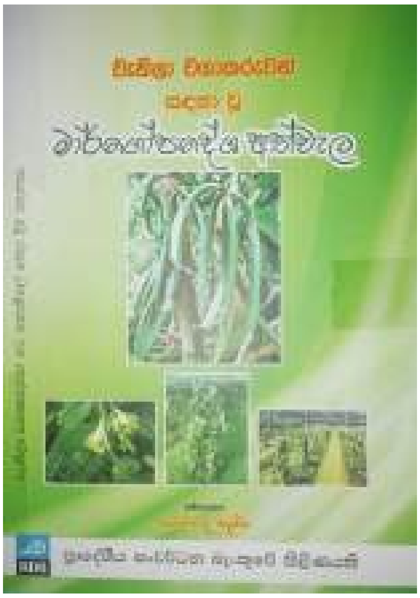
Diri Abhimani Programme

The Diri Abhimani 2022 program was launched on 8 March 2022 to empower the efforts and commitments of women entrepreneurs in Sri Lanka. Under this programme, RDB directs women entrepreneurs to achieve their aspirations in the business world as well as in their personal lives through guidance, consulting services and training .

RDB “Pusthaka Sathkara” Programme

RDB launched “Pusthaka Sathkara” programme to donate books for school libraries in remote areas to enhance readership among school children with the assistance of RDB family and its valued customers.

“Guidelines for Vanilla Growers” Book for Vanilla Growers



RDB published the book “Guidelines for Vanilla Growers” to improve the knowledge of vanilla cultivators. This book was written by Mr. Jayantha de Silva, a resident of Wellawaya Nikapotha area.

QR Pass for Fuel

Selected branches of RDB have organized community service programme to issue free QR pass to take fuel from fuel station.

EMPLOYEE REVIEW

Overview

By being aligned with the Bank's vision as the Development Banker to the Nation, HR aims at creating and sustaining a highly motivated exceptionally dynamic and empowered workforce that contributes towards corporate excellence.

HR is constantly committed in ensuring the fulfill the requirement of ideal human capital and well-being of employees by applying strategically integrated approach in the talent acquisition, development and engagement through best HR tools, proper policies, practices and processes. This encourages employees to play vital role and add value to corporate objectives and eventually to meet their career aspirations in return.

Financial KPIs with regard to HR for 2018 – 2022

	2018	2019	2020	2021	2022
Total Operating Profit (Rs. Mn.)	3,606	2,960	3,164	1,926	**1,998**
Total Income (Rs. Mn.)	26,071	27,508	24,210	24,492	**36,203**
Loan Portfolio (Rs. Mn.)	137,770	144,694	164,771	189,039	**215,373**
Deposit Portfolio (Rs. Mn.)	141,560	149,600	169,264	187,752	**210,301**
Total Headcount (FTE)	2,345	2,735	2,660	2,600	**2,531**
Revenue per FTE	11.02	10.06	9.10	9.42	**14.30**
Profit per FTE	1.43	1.08	1.19	0.74	**0.79**
Deposit Portfolio per FTE	58.82	52.90	61.94	72.21	**83.09**
Loan portfolio per FTE	57.78	54.70	63.63	72.71	**85.09**

(FTE = Full-Time-Employee)

Manpower Strength

The manpower of the bank is consisted with employees who have been deployed for the cadre positions on permanent and contract basis. Apart from that Door to Door Field Assistants (those who were converted to fixed term contract) and Rural Leaders (linked with micro finance system) would provide manpower service to the bank.

We contribute to the development of the nation by offering training programmes to students who require to undergo training (6-12 months) as requested by Universities, Technical Colleges, recognized Professional Institutions and school leavers those who are eligible for the university entrance. These categories would provide valuable inputs to the bank performance.

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

Manpower Type	Headcount 2021	Headcount 2022
Permanent/ contract employees	2600	**2531**
Door to Door Field Assistants	455	**445**
Rural Leaders	171	**216**
Total	3226	**3192**

Headcount distribution by management level is given below.

Management Level	Headcount Distribution 2021	Headcount Distribution 2022
Corporate Management	7	**8**
Senior Management	31	**30**
Executive Management	154	**127**
Executives	923	**1073**
Clerical and Allied	1356	**1176**
Other Grades	129	**117**
Total	2600	**2531**

Bank provides equal employment opportunities for both male and female. The gender profile was continued to maintain in 2022 as follows.

Gender	2021 Headcount	2021 %	2022 Headcount	2022 %
Male	1447	55.65	**1409**	**55.67**
Female	1153	44.35	**1122**	**44.33**
Total	2600	100.00	**2531**	**100.00**

EMPLOYEE REVIEW

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

Age Profile

Age Category	Headcount	%
Below 21 years	0	0
21 – 30 years	250	9.88
31 – 40 years	960	37.93
41 – 50 years	405	16.00
51 – 55 years	545	21.53
Above 55 years	371	14.66
Total	2531	100.00

Experience Profile

Experience Category	Headcount	%
More than 30 years	526	20.78
20 – 29 years	484	19.12
10 – 19 years	935	36.94
5 – 9 years	241	9.52
Less than 5 years	345	13.63
Total	2531	100.00

Career Advancement

The Bank entirely commits to a continuous development of all its employees by providing training to change attitude of staff and impart knowledge, hands on learning experience towards banking operations and enhance employees' capabilities in the fields of leadership and specially for better customer service. Each year, the bank allocates a significant amount of banks' budget for these activities. During the year, 44 programmes with an aggregate of 19,712 working hours of training were conducted for 1358 participants. Total investment for training during the year was Rs. 2.44Mn.

Performance Appraisal

During the year, the Bank has modified employee performance evaluation system to improve employee satisfaction and to create a more devoted workforce within the Bank. It has been designed to measure an individual performance based on an individual's key performance indicators (KPIs)

HR Board Sub – Committees

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

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

The Board Secretary functions as the Secretary to the committees. Four (04) Board Nomination Committee meetings and Six (06) Board Human Resources and Remuneration Committee meetings were held during the year 2022.

SPECIAL EVENTS

Branch Relocation

Eheliyagoda Branch

Eheliyagoda Branch moved to more convenient location to provide a high level of customer service and ceremonially opened by Chairman Mr. Mahinda Saliya along with GM/CEO Mr. A H M M B Jayasinghe and Management on 17th February 2022.

Mundel Branch

Mundel Branch moved to more convenient loction to provide modernized service and ceremonially opened by Chairman Mr. Mahinda Saliya along with GM/CEO Mr. A H M M B Jayasinghe and Management on 29th March 2022.

Badulla Branch

Badulla Branch moved to more convenient location to provide speedy service and ceremonially opened by Chairman Mr. Mahinda Saliya along with Mr. B G W Athula Kumara , Regional General Manager – Uva and Staff on 28th March 2022.

Godakawela Branch

Godakawela Branch moved to more convenient location to provide a high level of customer service and ceremonially opened by Ms. C.S. Weragoda , Regional General Manager, Sabaragamuwa along with Staff on 4th May 2022.

SPECIAL EVENTS

Galgamuwa Branch

Galgamuwa Branch moved to more convenient location to provide speedy service and ceremonially opened by Ms. B R D Pushpa Kumari, Regional General Manager – North Western along with Staff on 9th May 2022.

Narammala Branch

Narammala Branch moved to more convenient location to provide a high level of customer service and ceremonially opened by Ms. B R D Pushpa Kumari, Regional General Manager – North Western along with Staff on 12th September 2022.

Pamburana Branch

Pamburana Branch moved to more convenient location to provide a high level of customer service and ceremonially opened by Chairman Mr. Mahinda Saliya along with Mr. K Ariyathilaka , Regional General Manager – Southern and staff on 11th July 2022.

Nivithigala Branch

Nivithigala Branch moved to more convenient location to provide modernized service and ceremonially opened by Mr. Sumeda Edirisuriya, GM/CEO (Covering up of Duties) along with Ms. C.S. Weragoda, Regional General Manager, Sabaragamuwa and staff on 26th September 2022.

Walasmulla Branch

Walasmulla Branch moved to more convenient location to provide speedy service and ceremonially opened by GM/CEO (Covering up of Duties), Mr. Sumeda Edirisuriya along with Mr. K Ariyathilaka Regional General Manager - Southern and staff on 25th October 2022.

Dodangoda Branch

Dodangoda Branch moved to more convenient location to provide a high level of customer service and ceremonially opened by Chairman, Mr. Mahinda Saliya along with GM/CEO (Covering up of Duties) Mr. Sumeda Edirisuriya and Management on 28th November 2022

OTHER EVENTS

Appointment of General Manager/ CEO

Mr. A H M M B Jayasinghe has been appointed as the General Manager / CEO of Regional Development Bank with effect from 1st February 2022

National Industry Exhibition 2022

RDB has participated to the National Industry Exhibition 2022 organized by Industrial Development Board of Sri Lanka from 3rd to 6th February 2022 at BMICH, Colombo with the vision of assisting the entrepreneurs and enterprises involved in diversified fields of economic activities.

International Women's Day Programme

All RDB branches celebrated the International Women's Day Programme with their women customers. Accordingly, series of women focused programmes and events conducted at all branches of RDB. These events included training programmes focusing women entrepreneurs and granting of loan facilities to strengthen women entrepreneurs

The Grand Programme was conducted at Centre for Banking Studies at Rajagiriya on 8th March 2022 with the participation of the Management, staff and the customers. In parallel with the launch of "Diri Abhimani " Women Entrepreneur Competition 2022 ,following special events held at said occasion.

- Awarded rewards for National and Provincial Level Winners of the Diri Abhimani 2021 Programme.
- Awareness programmes on entrepreneurship
- Distributed loan facilities among women entrepreneurs

Lanka Pay Technnovation Awards 2022 (Gold)

RDB won Lanka Pay Technnovation Award 2022 (Gold) for the Best Lanka Pay Card Implementor of the year. The award was presented at the ceremony held at Shangri- La Hotel, Colombo on 29th March 2022 organized by LankaPay (Pvt) Ltd

Wyawasaya 2022 Trade & Educational Exhibition

RDB participated Wyawasaya 2022 – Trade & Educational Exhibition organized by Small Enterprises Development Division at BMICH , Colombo from 1st to 3rd April 2022 with the aim of inculcating contemporary entrepreneurial culture

"පැයෙන් පැයට බඩු මල්ල" Programme

All RDB branches conducted "පැයෙන් පැයට බඩු මල්ල" programme as previous years to distribute bag full of daily essentials to the winners on 18th April 2022 in parallel to Sinhala & Tamil New Year programme.

Alms Giving at Mahamewnawa, Anuradhapura

RDB organized Alms Giving on 18th June 2022 as previous years on the last day of Pirith Chanting Pinkama at Mahamewnawa , Anuradhapura.

OTHER EVENTS

World Children’s Day Programmes

All branches of RDB have conducted special programmes to commemorate World Children’s Day to inculcate savings habits among children.

“සිත්තම් පැංචා Art Competition” Prize Distribution

Prizes were distributed for the winners of the National Level of “සිත්තම් පැංචා Art Competition 2021” in parallel to the World Children’s Day 2022.

“පාට සිත්තම්” Children’s Art Competition 2022 With CIB

RDB has joined hands with CIB network to conduct “පාට සිත්තම්” Children’s Art Competition 2022 at their outlets to commemorate Children’s Day 2022 with children and their parents

Signed MOU with New Inventors Commission

RDB signed an MoU with Sri Lanka Inventors Commission to provide financial assistance to inventors to access local and global markets and to further development of their products .

RISK MANAGEMENT

Another year of challenging

The Sri Lankan economy, continued to suffer from the long lasting effects of the Easter Sunday attack in April 2019 and the COVID-19 pandemic in March 2020 that continued to spread in several waves. Although the economy was on a recovery path subsequent to the recovering of the COVID-19 pandemic, economy faced extreme headwinds and heightened uncertainties during the year 2022 due to running out of foreign reserves to pay for imports and defaulting on country's foreign debt. Sri Lanka is still in their process of negotiations of its debt with their creditors. In 2022, Sri Lanka faced its deepest ever economic and political crisis. The economic crisis has had a crippling effect on the country, with shortages of essential goods,high inflation, and political instability. The fluid political situation and heightened fiscal, external, and financial sector imbalances pose significant uncertainty for Sri Lanka's economic outlook. Unlike any other time in history, this crisis has affected whole categories of people in the community and pulls down the poor further to the ground.This economic, financial, and political crisis led to a negative impact on financial sector of the country.

The banking sector is the backbone of our economy. From a risk management perspective, the bank has faced challenges including the risk associated with the liquidity risk, interest rate risk, the continuing potential for rising defaults, foreign exchange risk due to the shortfall of foreign currency etc. The Central bank has introduced new rules and regulations and tied its policy rates to reduce the risk on financial sector of the country.

Due to the unstable operating environment, the Bank has implemented proactive approaches to risk management. The Bank has taken timely measures to minimize the impact of economics crises on its day-to-day operations, continue to service the customer with minimal disruptions and maintain asset quality and viability of its operations.

We have established effective and updated risk management measures and practices to balance the risk and reward for massive operational and financial result, with the guidance of Board integrated risk committee and provides guidance by an experienced Assistant General Manager (Risk Management) who works closely with their teams in managing risk. Effective risk management process enables bank to take better decision to manage and mitigate its unexpected risk and to achieve sustainable growth by improving its strategic and operational objectives. Special attention to current economic crises, government tax policies and central Bank guideline.

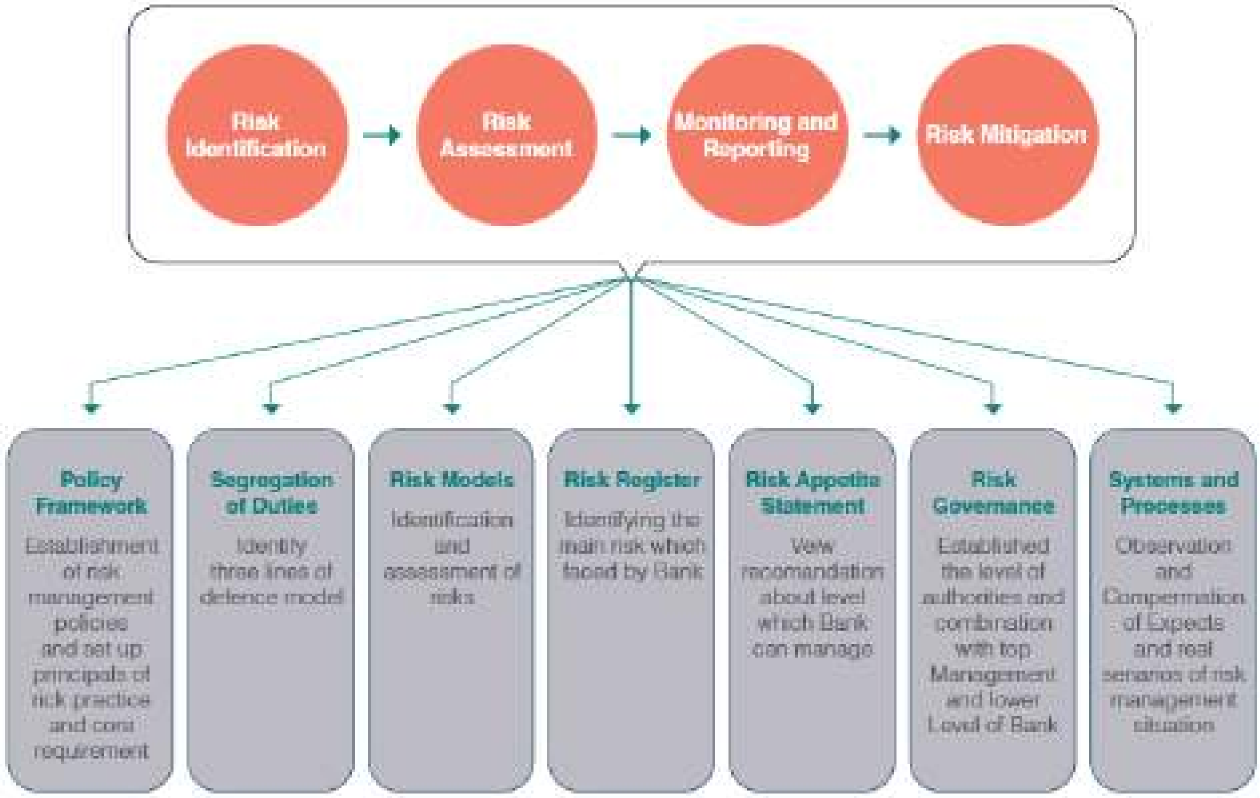
As risk management department, we could identify risk in different manner and view the recommendation to mitigate the risk and identified the strategy for positive future.

Risk Management Framework of the Bank

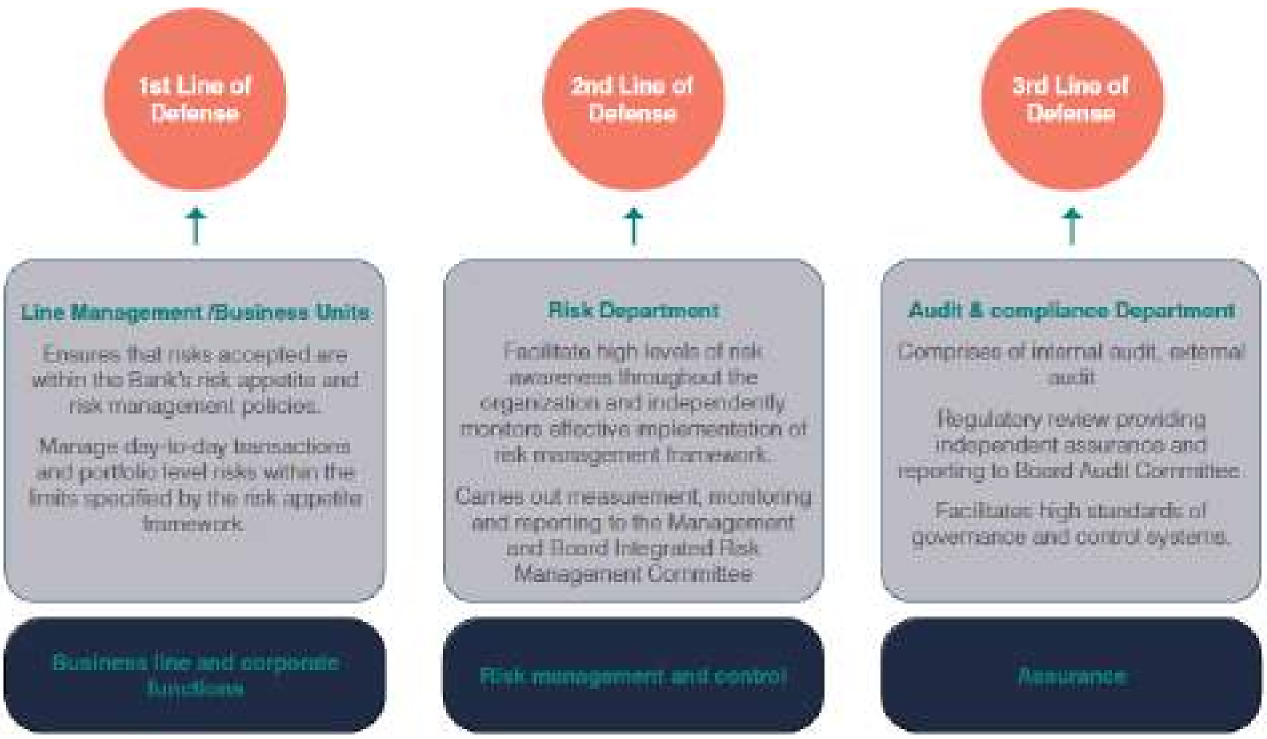
The Bank has established updated risk management framework to develop integrated risk management techniques for monitoring and managing the banks risks and to assure that adequate capital is maintained to meet various risks which the Bank is exposed.

The Bank risk management Framework is to

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



Approach to Risk Management

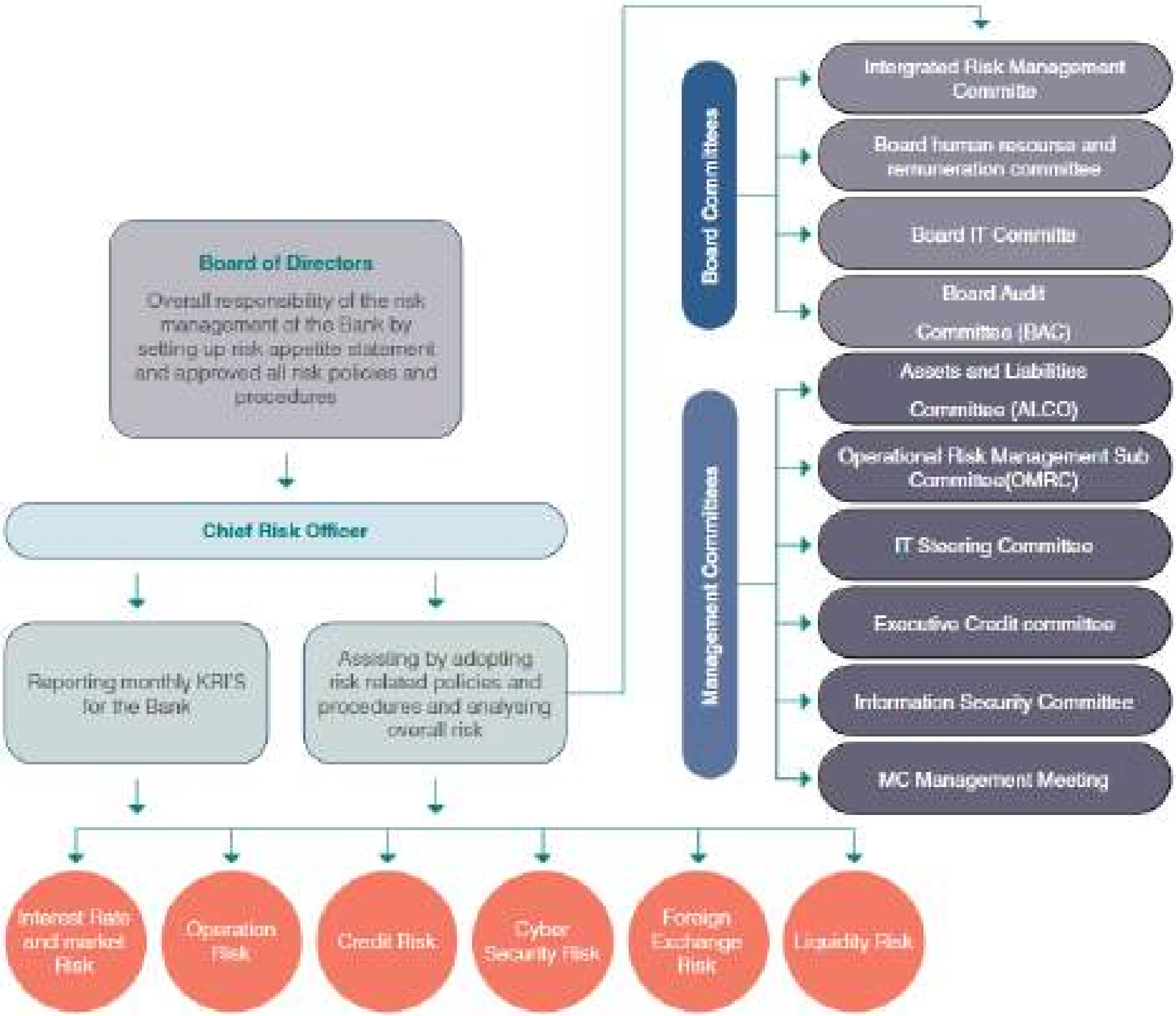


RISK MANAGEMENT

Risk Governance

The Bank is committed to ensure that Risk Management practices reflect a high standard of governance. The Risk Governance structure of RDB starts from the Board of Directors and drilldown 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 Human resource and remuneration Committee (BHRRC), 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.

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. The Risk Management Department (RMD) which is headed by the CRO has six separate functions of risk management namely interest rate and market risk, credit risk, operation risk, cyber security risk, Foreign exchange risk and liquidity risk



Board level Risk Management Committees

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

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

- **Board Human resource and remuneration Committee (BHRRC)** The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to directors, Chief Executive Officer (CEO) and key management personnel of the bank. Further, the committee shall set goals and targets for the directors, CEO and the key management personnel, evaluate the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives. The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed

- **Board the Nomination Committee** The committee shall implement a procedure to select/appoint new directors, CEO and key management personnel and shall consider and recommend (or not recommend) the re-election of current directors, taking into account the performance and contribution made by the director concerned towards the overall discharge of the board's responsibilities.

- **Board IT Committee** The IT steering committee isthe major governing structure of the Information and the information systems of the bank. The bank has established an IT steering committee in 2013 headed by CIO of the Bank which represents all technical people and CRO and periodically discuss all IT related issues in the Bank and make recommendation and solutions to the Board of Director. Following key initiatives has been taken into account to lower the technology and cyber risk faced by the Bank.

  Created the position of information Security Manage ment officer to perform duties related to cyber security Vulnerability and penetration assessment.

  Strengthening network security.

  Improved system security, availability, control and mon itoring the system downtime.

Management level Risk Management Committees

- **Executive Credit Committee (ECC)** - ECC is the management level committee responsible to manage credit risks and the credit and operational risks in credit functions. ECC periodically reviews/implements the Credit Policies of the Bank. The Committee engages in approving of credit within the delegated authority limits and to recommend credit facilities for the approval of the Board of Directors.

- **Asset and Liability Management Committee (ALCO)** - ALCO is the management level committee responsible to manage the market risk and liquidity risk of the Bank. It aims to manage the volume, mix, maturity, rate sensitivity, quality and liquidity of assets and liabilities to attain a predetermined acceptable risk/reward ratio. The functions of ALCO include policy decisions with regard to management of on and off-balance sheet positions considering capital structure, product pricing, funding and investments with the aim of stabilizing short-term profits, long-term earnings and long-term solvency of the Bank

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- **Operational Risk Management Committee (ORMC)**- ORMC manages the operational risk of the Bank and implements operational Risk Management techniques and takes measures to maintain the integrity of internal controls, reduce errors in transaction processing, prevent frauds etc. to minimize the operational losses to the Bank.

- **Information Security Committee (ISC)** - ISC is an management level management committee established to oversee the implementation of information security policy of the Bank. ISC monitors that all information systems and critical information are secure and safeguarded throughout the Bank and are in compliance with privacy and customer trust.

- **The Management Committee (MC)** is the committeewhich 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 alloperational level of the bank to mitigate the risk and uncertainty periodically.

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

RISK MANAGEMENT

The Bank's risk related area is directly connected with several fundamental risk categories and connected risk related area. These have been identified and recognized their impact on the bank has been ascertained, as they have the potential to affect the Bank's ability to continuous operations and foster business growth. The Bank's risk department, relevant management committees continuously monitor the Bank's position with regards to these risks and consider exposures based on the conduct and outcomes of operations, as well as the external operating environment.

Overview on Key Risk Factors and Governance Structure of RDB

Credit Risk

Regional Development Bank is the leader among the government Development Banks, credit is the major business line of the bank. The total credit exposure of RDB is 73.6% 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 weight on credit risk management process. Under, covid 19 and post economics crises situation loan and advance has increased by declining rate ,31st of December 2022 to Rs. 210,563 thousand compared to 31st of December 2021.

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, financial market trends, 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.

Credit Administration Unit

Due to the identified risks related to the credit loan security bank has established independence Credit Administration Department separate from Risk Management Department in 2022.Which is headed by Senior Assistant General Manager. 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 over 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 bellow BBB ratingis not eligible for a credit facility from the Bank. Risk Department has directly involved with proposed Loan Origination System (LOS) implementation process and include to above mention risk rating to Loan Origination System (LOS).

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.

Risk Rating

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

*Loan Loss Provisioning (Impairment Provisions and CBSL Provision)

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

- Individual Impairment
- Collective impairment

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

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

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

SLFRS 9 Implementation

The Bank has implemented the Banking act direction 13 and 14 on classification, recognition, measurement of credit facilities in licensed Bank to comply with the SLFRS 9 effect from January 2018.This provisioning method to be based on forward looking on incurred credit loss using exposure at default (EAD), probability of default (PD), Loss given default as well as 1st and 2nd installment to be arrears.

Sectorial Limits and Managing Concentration Risk

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

Liquidity Risk Management

The Bank's liquidity Risk Management framework requires to ensure that the Bank operates within defined liquidity limits and remains in compliance with the Bank's liquidity policies, CBSL regulatory requirements and practices.
It is the risk that a Bank encounters difficulty in meeting its financial commitments that are settled by delivering cash or other financial assets. It is the Bank's policy to maintain a sound liquidity position, above the regulatory requirement of 20% on liquid asset ratio (LAR) and above 90% of Liquidity coverage ratio (LCR). To achieve this objective, the Bank evaluates and monitors liquid assets and liabilities on an ongoing basis. The Bank maintained strong liquidity position during the year, which is supported by careful capital management, accommodative measures adapted by the regulator in-response to the current economic crises and strong deposit growth from both retail and institutional customers

Liquidity risk of the Bank is managed by monitoring key liquidity indicators under both regulatory requirements and requirements under stock approach and flow approach. Changes in both assets and liabilities are measured compared to the funding requirements to ensure that the desired level of liquidity is maintained at each point of time and is in line with the Bank's risk appetite. Liquidity risk is mitigated by maintaining adequate buffers in high quality liquid assets and diverse funding sources.

The main responsibility of managing the Bank's liquidity lies with the Assets and Liabilities Management Committee (ALCO). ALCO is an Executive Level Committee consisting of the Bank's Corporate and Executive level employees. The Committee meets at least once a month or more frequently on a need basis. Following monitoring technics and approaches are used by Risk Management Department of RDB to manage and monitor its liquidity.

- Stock approach
- Flow approach
- Stress Testing on Liquidity

All figures in (Rs 000')	Balance as at 31/12/2022	Shocks		
		Minor	Moderate	Major
Magnitude of Shock	-	10%	15%	20%
Liquid Assets	**55,790,668**	55,790,668	55,790,668	55,790,668
Total Liabilities	**200,505,077**	200,505,077	200,505,077	200,505,077
Value fall on Total Liabilities	-	20,050,508	30,075,762	40,101,015
Revised Total Liabilities after shock	-	180,454,569	170,429,315	160,404,061
Revised Liquid Assets after shock	-	35,740,160	25,714,907	15,689,653
Liquid Asset Ratio	**27.83%**	19.81%	15.09%	9.78%
Liquidity Asset Requirement	**40,101,015**	-	-	-
Existing Liquidity Assets	**55,790,668**	35,740,160	25,714,907	15,689,653
Excess Liquidity /Additional Requirement	**15,689,653**	(4,360,855)	(14,386,109)	(24,411,363)

RISK MANAGEMENT

The Risk Management Department regularly carries out stress testing on Bank Liquidity under three scenarios, which is related to different severity conditions. According to timely financial market changes, other economics changes and policies changes. 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.

Operational Risk Management

Due to the Economics crises and government policies toward the economics controlling purpose, directly impacted on the bank operation in last financial year 2022.The Bank today has 276 branches covering entire country with more than 2,531 staff members and well standard technical solutions (CORE Banking system, ATM and CDM and Human Resource System) for supportive services. Evaluating capabilities for new Loan Originating System(LOS) and steps forwarded for new operation effective development decisions. Hence the operational risk is the inherent risk in the operational process of the Bank RDB has established a comprehensive risk operational risk management policy in 2013 and approved by the Board of Directors. This is main guidance for the Bank operational risk management of the bank, and it is periodically review. 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.

Business Continuity Plan (BCP) and Disaster Recovery (DR) policy

The Bank has established comprehensive and updated BCP and the DR to mitigate the operational risk events in an unforeseen situation. These two policies are updated time to time through DR drilling and BCP drilling.

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. Interest rate risk occurred due to the changes of government fiscal policies changed. Adverse interest rate movements may also impact on the Bank's capital and earnings through changes in present value and the mismatch of future cash flows of banking book positions. Policy rates were marginally up during all over the year 2022 thereby increasing interest rates. 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. 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-today 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 centralized 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). Furthers, The Bank has operating with Human resources management system to manage their employee data base and payroll. During the year 2022 the Bank exposure to new information systems such as QR code and the recovery management system.

IT Governance Structure

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.

IT Security policy

Updated and clearly defined It related policies are maintained by the IT department by comply with the regulator and the Chief information officer is the responsible person to maintain these policies.

Regular IT vulnerability assessments

VAPT testing which is done by the independent party is the one of the methods to mitigate the security risk related to IT operation.

IT audits

Information technology audit which is done by the independent parties

The Information Security Management System (ISMS)

Since the year 2015 Bank 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. The Bank Information security officer (ISO) is the responsible person for the information security of the bank and to maintained and approved information security and acceptable usage policies to maintain internal control measure on information.

Information security committee

Since 2022, the Bank has established the information security committee to comply with regulatory framework on technology risk management and resiliency for license Banks 2021.

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. Compliance risk is the Bank's potential exposure to legal penalties, financial forfeiture and material loss, resulting from its failure to act in accordance with industry laws and regulations, internal policies or prescribed best practices. This may lead to regulatory sanctions, financial penalties, disruptions in business, operational and reputation damages. The Bank's compliance function falls under the purview of the IRMC headed by AGM 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. The Bank embraces modern and innovative strategies for risk assessment together with an effective governance framework to address the compliance risk the Bank ensures safety and soundness to keep the financial stability and the manner in which they conduct their business.

- Identifying and ensure timely review of applicable policies and procedures which granted by authorized parties.
- Assessment conducting compliance on branches, divisions, and products of the Bank.
- Conducting awareness through training sessions.

Capital Risk 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. Basel 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 1st July 2017 based on the Central Bank direction 01 of 2016 on capital requirement under BASLE III for licensed commercial banks and licensed specialized 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%

Foreign Exchange Risk

Foreign exchange rate impacts on earnings and capital gaining from unanticipated and predicted fluctuation in foreign exchange market during 2022. During the year under review, CBSL implemented several measures to improve the foreign currency liquidity from external sources. Further, CBSL continued to purchase foreign exchange from the domestic foreign exchange market to build-up reserves.

Legal Risk

Legal risk is a main part of Operational risk. Legal risk can occur due to lack of awareness or misunderstanding and misconducting the day-to-day operations of the bank. This may include losses resulting from non-enforce ability of contracts due to incorrect documentation and deficiencies in drafting, which may result in fines, penalties and punitive damages or a claim being made against the Bank, which may result in a liability or loss. The Legal Division provides guidance to the business divisions and engages in strategic management of the legal risk of the Bank. The Legal Division proactively engages in identifying potential legal risks and issues in collaboration with other business divisions and ensuring that adequate and appropriate mitigatory measures are adopted to safeguard the Bank's interest.

RISK MANAGEMENT

During the current economic stress situation, the bank experienced increasing legal risks due to failing clients to honor terms of settlements failing Bank to execute the writs & deferment of court cases across the year.

Documentation and Disbursement

- It is so important to usage of completed and correct format of documents for every operation of the bank. Among these, usage of correct credit security documents, loan application forms, KYC documents, mortgage/guarantee bonds, other legal documents and insurance policies and other documents are very important.
- The credit administration department and legal department are communicated to the credit officers ,branch manager and other related parties about updated format and changes .And closely supervise and advice changes on above mention.
- Loan Disbursements are subject to dual controls. The process ensures availability of funds as per customer requirement within the set internal controls.

Impact of Economic Crisis on Risk Management of the Bank

Sri Lanka is currently experiencing an economic crisis and increased levels of poverty as a result of persistent fiscal and current account deficit, mounting debt and poor governance. The secondary effects of both the COVID-19 pandemic and post economics crises on the country's economy and people's livelihood aggravated the situation. With the surge in prices of essential items, poor people are likely unable to afford essential items and meet their basic needs. This has led to increase the poverty level of the country

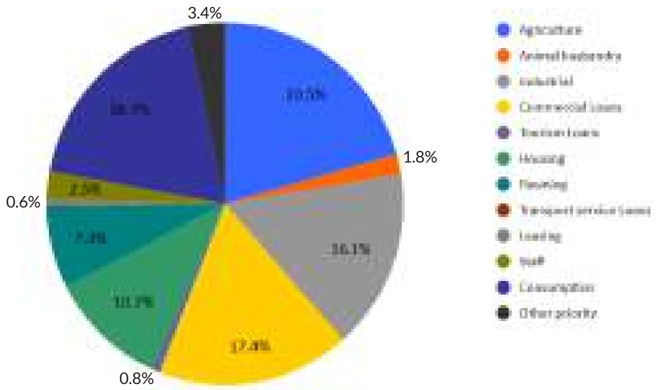
The financial sector is the back born and the invisible leader of any economy. Hence any economic crisis/any economic downturn is immediately affected to the Banking operation of the country. In this circumstance, due to economic crises outbreak as a medium scale development bank we also faced very difficult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

Due to the problem of foreign currency reserved importation of some products have been banded This results in shortages of food, fuels, fertilizes, medicines, and health items. The population across the country is suffering from long power cuts caused by the fuel shortages which has impacted to the each and every industries and the sectors of the country these situation has led to the increasing trend of the repayment risk and the deterioration of the quality of the credit portfolio of the Bank.

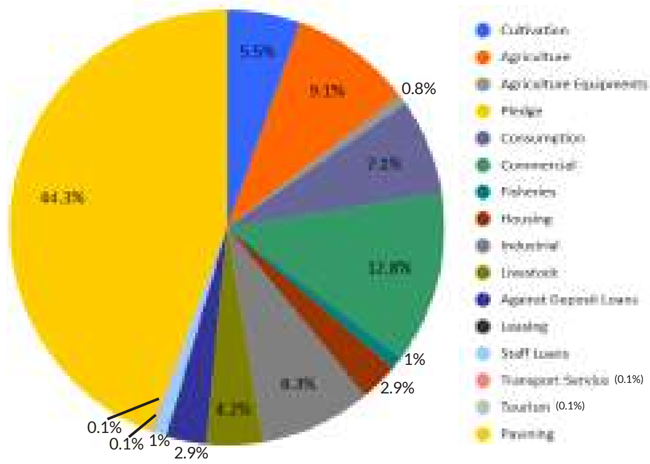
Indicators	12/31/2021	12/31/2022
NPL Ratio	8.71%	8.46%

Highlights in Dec 2022 and Comparative Year

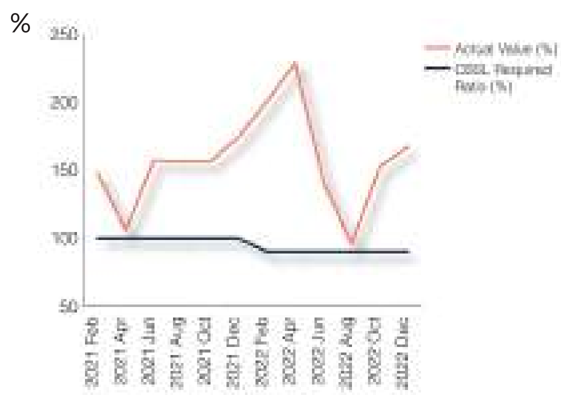
Exposure By Products (2021/12/31)



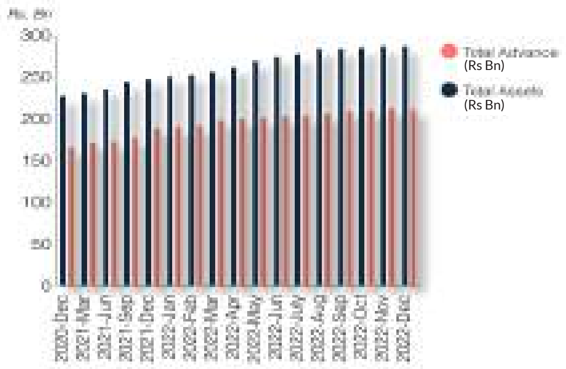
Exposure By Products (2022/12/31)



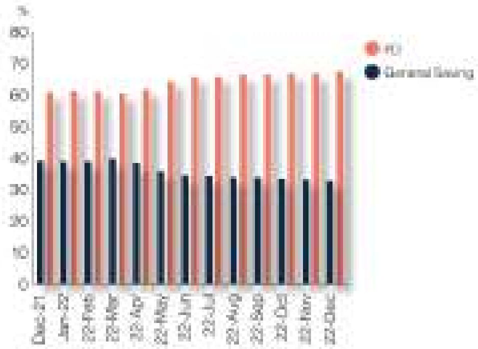
Required & Actual Liqudity Coverage Ratio of RDB Bank



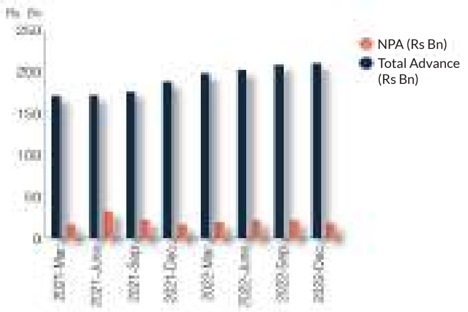
Total Assets vs Total Advances



FD vs General Savings

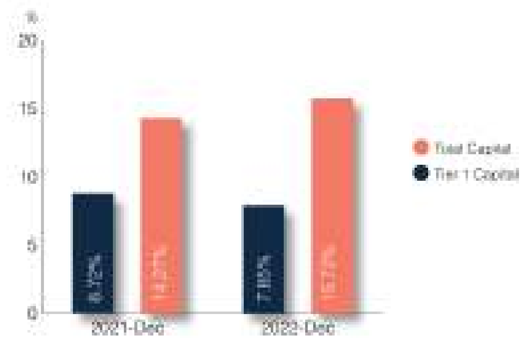


Gross NPA vs Total Advance

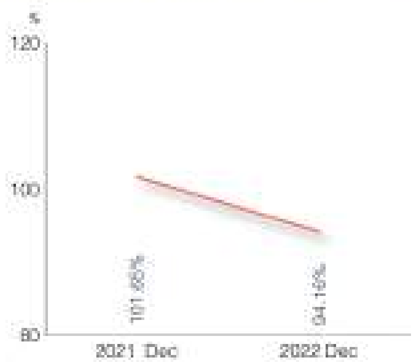


	2021-Dec	2022-Mar	2022-Jun	2022-Sep	2022-Dec
Tier 1 Capital	8.72%	8.44%	7.93%	7.38%	7.85%
Required Tire 1 Level	8.50%	8.50%	8.50%	8.50%	8.50%
Total Capital	14.27%	15.49%	15.73%	13.23%	15.72%
Required Total Capital Level	12.5%	12.5%	12.5%	12.5%	12.5%

Capital Adequacy Ratio



Total Advances to Deposits (With Out Refinance)



CORPORATE GOVERNANCE

AUDITOR GENERAL'S REPORT ON CORPORATE GOVERNANCE

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

My No. BAN/E/RDB/CG/2022 | Your No. | Date 21 November 2023

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 2022

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.

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Auditor General

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CORPORATE GOVERNANCE

Annexure to the report on factual findings

Section	Principle		Level of Compliance during the year 2022
3(1)	**The Responsibilities of the Board**		
3(1)(i)	Agreed upon procedures carried out to ensure the Board has strengthened the safety and soundness of the bank.		
	a)	The Board approval, the bank's strategic objectives and corporate values.	**Complied With:** Board approved Corporate Plan which is prepared for 2022-2024 is in place. In addition, the Bank's Strategic objectives are embedded within the annual budget which is implemented annually. Those consisted of strategic objectives and corporate values of the Bank.
		Whether the Bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Strategic objectives and corporate values of the bank have already been communicated to all KMP's and will be communicated to other staff through awareness meetings at Head office level as well as Provincial level.
	b)	The board approval of the overall business strategy of the bank.	The board approved Corporate Plan (2022-2024) includes the overall business strategy of the Bank.
		The overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.	Overall risk policy and risk management procedures have been prepared and approved by the Board with the recommendation of the Board Integrated Risk Management Committee and it is being reviewed periodically.
		The overall business strategy contains measurable goals, for at least the next three years.	Measurable goals of The Corporate Plan for the period of 2023-2025 has been updated and pending to the Board approval.
	c)	The appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	**Complied with.** The Board approved Integrated Risk Management Policies and procedures include continuous and prudent assessment process. Further it is reviewed by the Board Integrated Risk Management Committee (BIRMC). The following reports also provide further details in this regard: • Risk Management Report • Integrated Risk Management Committee Report
	d)	The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, shareholders, and borrowers;	A Board approved communication policy is in place, and it includes communication with all stakeholders, including depositors, creditors, shareholders and borrowers. However, communication policy needs to be reviewed as mentioned in the policy document.

Section	Principle	Level of Compliance during the year 2022
	e) The Board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	**Complied with.** All Key Management personnel, especially with DGM-Operation are responsible for the establishing and updating of internal control system of the Bank. Also, the Internal Audit Department reviews the adequacy and integrity of the internal control system and management information system of the Bank. However, this process needs to be further strengthened. Further, Internal audit reports are submitted to the Board Audit Committee (BAC) and major findings are submitted to the board.
	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;	**Complied with.** The Board has identified and designated Key Management Personnel of the Bank.
	g) The Board has defined the areas of authority and key responsibilities for the board directors themselves and for the key management personnel;	**Complied with.** Board Charter defines the areas of authority and key responsibilities for the Board of Directors and General Manager/CEO. A Board approved Board Charter is in place. The areas of authority and key responsibilities of the Key Management Personnel have been documented in relevant Job Descriptions.
	h) The Board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	**Complied with.** The Board exercise appropriate oversight of the affairs of the Bank through Board and Board Subcommittees. Members of the Management Team are invited for Board meetings to provide additional clarifications if required.
	i) The Board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) The selection, nomination and election of directors and key management personnel. (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary.	**Complied with.** The Board assessed their effectiveness at the Board Meeting
	j) The Board has a succession plan for key management personnel.	**Complied with.** Updated Succession Plan is in place which was approved by Board Nomination Committee on 29.09.2022.

Section	Principle	Level of Compliance during the year 2022
	k) The Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	**Complied with.** 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.	**Complied with.** 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.	**Not Applicable.** Under section 33 of the Pradeshiya Sanwardana Bank Act, Auditor General is the external auditor of the Bank.
3(I)(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.	**Complied with.** The Board shall appoint a General Manager/CEO of the bank. Accordingly, the Board has appointed permanent General Manager/CEO as per PSB Act with effect from 01.02.2022. Due to unavoidable reason, Chief Finance Officer has been appointed as General Manager/CEO- Cover-up Duties with effect from 05.09.2022. As well as this appointment has been renewed several times during the year 2022 as per below. 1. 05.09.2022 to 27.09.2022 2. 27.09.2022 to 30.11.2022 3. 30.11.2022 to 01.12.2022 4. 01.12.2022 to 28.02.2023 The Chairman has been appointed for the period from 26.02.2020 in terms of the provisions of PSB Act by the Hon. Minister in charge of PSB. 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(I)(iii)	The Board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	**Complied with.** Generally, the Board meetings are held twice a month. Also, special meetings are conducted additionally as and when necessary. 21 meetings have been held during the year 2022.
3(I)(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.	**Complied with.** Regular Board Meetings are scheduled, and the Board is informed at the beginning of each calendar year to enable submission of matters and proposals to the agenda for regular Board meetings.

Section	Principle	Level of Compliance during the year 2022
3(I)(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.	**Complied with.** Notice of meetings is given through an Annual Calendar at the beginning of the year. Agenda and Board papers for the Board and Subcommittee meetings are circulated to the Directors seven days prior to the meetings through a secure e-Solution (Upload to the Board Pac) except for urgent papers that may come up. Reasonable notice is given before any special meeting and consent of all Directors are obtained prior to scheduling a special meeting.
3(I)(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.	Mrs. Hiranthi Karunaratne, who is a Non-Executive Independent Director, has not attended the three consecutive meetings held and bank has issued a waning letter in this regard.
3(I)(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.	**Complied with.** 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 section 19 of the Pradeshiya Sanwardana Bank Act. The secretary shall be an officer on a full-time basis.
3(I)(viii)	The process to enable all directors to have access to advice and services of the company secretary.	**Complied with.** All Directors have access to the advice and service of the Board secretary.
3(I)(ix)	The company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	**Complied with.** The Board Secretary maintains the minutes of Board meetings. Further such minutes are available for inspection to any Director on request.
3(I)(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 (f) the decisions and board resolutions.	**Complied with.** 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 Compliance with the board's strategies and policies.

Section	Principle	Level of Compliance during the year 2022
3(I)(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.	**Complied with.** The Board approved procedure to seek independent professional advice is available.
3(I)(xii)	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. 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. Has he/she been counted in the quorum for the relevant agenda item at the board meeting.	**Complied with.** 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. The director with personal interest on any matter is not count in the quorum for the relevant agenda item at the board meeting. However, no such instances have been occurred during the year.
3(I)(xiii)	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.	**Complied with.** Powers reserved for the Board are included in the Board Charter.
3(I)(xiv)	The Board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors.	Although, such a situation has not arisen, the Board is aware of the necessity to inform the Director of Bank Supervision, prior to taking any decision or action if the Bank is about to become insolvent or about to suspend payment to its depositors and other creditors.
3(I)(xv)	The Board has the bank capitalized at levels as required by the Monetary board.	Bank has maintained the Total Capital Adequacy Ratio as determined by the monetary board. However, some occasions under the Total Tire 1 Capital were reported below the required level.
3(I)(xvi)	The board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	**Complied with.** The Annual Report includes the Corporate Governance Report setting out the compliance requirement with the corporate governance direction issued by the Central Bank of Sri Lanka.
3(I)(xvii)	The board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.	**Complied with.** Self-Assessment forms of the Board of Directors other than two Directors who was resigned during this year are available.
3(2)	**The board's Composition**	
3(2)(i)	Board comprises of not less than 7 and not more than 11 directors.	**Complied with.** The Board is comprised of not less than 7 and not more than 11 throughout the year. which is in line with the direction and comprised of 09 Directors as at 31.12.2022.
3(2)(ii)	(A) The total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	**Complied with.** None of the Directors have exceeded nine years as described in the direction.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2022
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	**Not applicable.** Such a situation has not arisen.
3(2)(iii)	The number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	**Complied with.** There were no Executive Directors in the Board.
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: a) Holds a direct and indirect shareholding of more than 1 per cent of the bank;	**Complied with.** A minimum of five Independent/Non- Executive Directors have represented the Board throughout the year. 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 from the General Treasury.
	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.	
	c) has been employed by the bank during the two year period immediately preceding the appointment as director.	
	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)	
	e) represents a specific stakeholder of the bank	
	f) is an employee or a director or a material shareholder in a company or business organization: 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 II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or 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.	**Complied with.**
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.	**Not Applicable.** There are no provisions for appointing alternate Directors as per the Pradeshiya Sanwardana Bank Act No.41 of 2008.

Section	Principle	Level of Compliance during the year 2022
3(2)(vi)	The Bank has a process for appointing independent directors.	**Not Applicable.** Independent Directors are appointed by the Hon. Minister in terms of the provisions of the PSB Act.
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 nonexecutive directors.	**Complied with.** As per section 16 of the Pradeshiya Sanwardana Bank Act, the quorum includes 5 if the Board consisted of 7 Directors and 6 if the number of Directors over 7. All board members are Non-Executive Directors.
3(2)(viii)	The Bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, nonexecutive directors and independent non-executive directors in the annual corporate governance report.	**Complied with.** The composition of the Board and their information is disclosed in the Annual Report.
3(2)(ix)	The procedure for the appointment of new directors to the board.	**Not applicable.** Directors are appointed by the Hon. Minister in terms of the provisions of PSB Act.
3(2) (x)	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	**Not applicable.** Appointments and removal of Directors are done by the Hon. Minister in terms of the provisions of PSB Act.
3(2)(xi)	If a director resigns or is removed from office, the board: (a) Announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any, and (b) Issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	**Complied with.** The appointment and removal of Directors are done by the Hon. Minister in terms of the provisions of PSB Act. Resigning director acknowledges his/ her resignation through a letter to the Bank and based on that letter the Bank informs to the Ministry that the Director has resigned. The bank has informed the resignations of directors to the CBSL through a mail.
3(2)(xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank.	**Complied with.** Such a situation will not arise since the Directors are being appointed by Hon. Minister in consultation with Secretary to the Treasury. Also, the Central Bank of Sri Lanka assesses Fitness and propriety based on the declarations obtained from Directors and Key Management Personnel.
3(3)	**Criteria to assess the fitness and propriety of directors**	
3(3)(i)	The age of a person who serves as director does not exceed 70 years.	**Complied with.** No Director of the Board is over 70 Years old.
	(A) The transitional provisions have been complied with	**Not applicable.**
3(3)(ii)	If a person holds office as a director of more than 20 companies/ entities/ institutions inclusive of subsidiaries or associate companies of the bank.	**Complied with.** None of the Directors hold directorship in 20 companies as per their declarations.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2022
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.	**Complied with** Such a situation has not arisen.
3(4)	**Management functions delegated by the board**	
3(4)(i)	The delegation arrangements have been approved by the board.	**Complied with.** 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.
3(4)(ii)	The Board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated.	**Complied with.** Board takes the responsibility for the matters in 3 (1) (i) even though such matters are delegated.
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.	**Complied with.** The Board reviews and approves the delegation process on a periodic basis and the last review date was 01.07. 2022. Approval limits have been determined according to authority level.
3(5)	**The Chairman and CEO**	
3(5)(i)	The role of Chairman and CEO is separate and not performed by the same individual.	**Complied with.** The positions of the Chairman and the CEO are separated and performed by two individuals. 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(5)(ii)	The Chairman is a non-executive Director. 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. The designation of the senior director is disclosed in the bank's Annual Report.	**Complied with.** Chairman is an Independent Non-Executive Director, and the Bank has not designated any director as Senior Director.
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.	**Complied with.** Annual declarations help to identify such relationships.

Section	Principle	Level of Compliance during the year 2022
3(5)(iv)	The Board has a self- evaluation process where the chairman: (a) provides leadership to the board (b) ensures that the board works effectively and discharges its responsibilities; and (c) Ensures that all key and appropriate issues are discussed by the board in a timely manner.	**Complied with.** The board has evaluated their performance through self-assessment process.
3(5)(v)	A formal agenda is circulated by the company secretary approved by the chairman.	**Complied with.** The agenda for each Board meeting is prepared and circulated by the Board secretary in consultation with the Chairman.
3(5)(vi)	The Chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	**Complied with.** Matters to be taken up for discussions in Board Meetings are circulated with 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.	**Complied with.** 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.	**Complied with.** 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.	**Complied with.** 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.	**Complied with.** As per the Pradeshiya Sanwardana Bank Act No.41 of 2008, four ex-officio members have been appointed representing three shareholder 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.	**Complied with.** The CEO is an executive officer in charge of day-to-day management of the bank operation.

CORPORATE GOVERNANCE

Section	Principle	Level of Compliance during the year 2022
3(6)	**Board appointed committees**	
3(6)(i)	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. Check that each board committee report is addressed directly to the board. The board presents a report of the performance on each committee on its duties and roles at the Annual General Meeting (AGM).	**Complied with.** The Bank has established the 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. Board Audit Committee Board HR and Remuneration Committee Board Nomination Committee Integrated Risk Management Committee Performance report on each committee on its duties and roles is included in the annual report. Also, the Annual Report is submitted to the Annual General Meeting.
3(6)(ii)	**Audit Committee:**	
	a) Chairman of the Audit Committee is an independent Non- Executive Director possesses qualifications and experience.	The Chairman of the Audit Committee was an independent Non-Executive Director who was appointed from 29/08/2022 to comply with the Direction. However, a Non -Independent Director has chaired from 28/02/2022 to 29/07/2022.
	b) All members of the committee are non-executive directors.	**Complied with.** All members of the committee are non- executive directors.
	c) The committee has made recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes. (ii) the implementation of the Central Bank guidelines issued to auditors from time to time. (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.	**Not Applicable.** As per section 33 of the Pradeshiya Sanwardana Bank Act No.41 of 2008, the Auditor General is the external auditor of the Bank. 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.
	d) The committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	**Not Applicable.** As per section 33 of the Pradeshiya Sanwardana Bank Act No.41 of 2008, Auditor General is the external auditor of the Bank.
	e) The committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.	**Not Applicable.** Such a situation has not arisen since Auditor General is the auditor of the Bank.

Section	Principle	Level of Compliance during the year 2022
f)	The committee has discussed and finalized the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.	**Not Applicable.** Sub-sections (3) and (4) of 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.	**Complied with.** The Board Audit Committee Reviews Quarterly and Annually Financial Statements of the Bank considering 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.	**Complied with.** The committee had two 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.	**Complied with.** Management Letter for the year 2021 and the responses will be reviewed by the forthcoming Board Audit Committee.
j)	The committee shall take the following steps with regard to the internal audit function of the bank:	
	I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	**Complied with.**
	II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	**Complied with.** Review of the internal audit program and results of the internal audit process and relevant recommendations are made by the Board Audit Committee. Ex. Progress of the internal audit program as at 31.05.2022 has been reviewed on BAC held on 20.06.2022
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	**Complied with.** Appraisal of the year 2022 of the CIA functions has been reviewed by the Board Audit Committee held on 15.08.2023, since CIA has been appointed on 27.06.2022

Section	Principle	Level of Compliance during the year 2022
	IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	**Complied with.** 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;	**Complied with.** Such a situation has not arisen.
	VI. The internal audit function is independent of the activities it audits.	**Complied with.** Internal audit function is independent of the activities it audits, and major observations reported to the Board Audit Committee.
k)	The minutes to determine whether the commitee has considered major findings of internal investigations and management's responses thereto;	**Complied with.** The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.
l)	Whether the committee has had at least two meetings with the external auditors without the executive directors being present.	**Complied with.** The commiitee has had one meeting with the external auditor without the Executive Directors.
m)	The terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	**Complied with.** The "Term of Reference" of the Audit Committee covers all these areas.
n)	The committee has met, at least four times and maintained minutes.	**Complied with.** Five committee meetings had been held during the Year 2022 and maintained minutes.
o)	The Board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings.	**Complied with.** Details of the activities, number of audit committee meetings held, and details of attendance are disclosed in the annual report.

Section	Principle		Level of Compliance during the year 2022
	p)	The Secretary of the Committee is the company secretary or the head of the internal audit function.	**Complied with.** Board Secretary is the secretary to the Audit Committee.
	q)	The "whistle blower" policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. 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 iii) Appropriate follow-up action.	**Complied with.** Board approved "whistle blower" policy is in place.
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.	**Complied with.** Remuneration of Directors is 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. Updated Remuneration Policy is pending to approval of the Board.
	b)	The goals and targets for the directors, CEO and the key management personnel are documented.	Directors are Non-Executive Directors, and they act according to Board Chater. However, the draft document of setting goals and targets to the Board of Directors will be submitted to the next BHHRC. **Complied with.** Goals and Targets for the Key Management Personnel (KMP) have been documented as per the annual budget and sectional action plan or their KPIs.
	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.	**Complied with.** The performance of Key Management Personnels are being evaluated by Board Human Resource & Remuneration Committee. While the performance evaluation of CRO, CO and CIA who are engaged in the independent functions are being reviewed and evaluated by relevant Board Sub Committees.
	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.	**Complied with.** The CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed as per the provision.
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.	**Complied with.** The Board appoints the CEO. Appointments of Directors are made by the Hon. minister in terms of the provisions of PSB Act. Committee sets the criteria to select/appoint/promote key Management personnel.

Section		Principle	Level of Compliance during the year 2022
	b)	The committee has considered and recommended (or not recommended) the re-election of current directors.	**Not Applicable.** The Hon. Minister appoints the Board of Directors in consultation with the Secretary to the Treasury.
	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.	**Complied with.** 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.
	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.	**Complied with.** Declarations on fitness and propriety of the Directors and Key Management Personnel were obtained and approved by the Bank Supervision Department which have been updated by the Bank at the change of Positions / Qualifications.
	e)	The committee has considered a formal succession plan for the retiring directors and key management personnel.	**Complied with.** Board approved updated Succession Policy for the KMPs is in place. The succession arrangements for the Directors are being made through Hon. Minister in terms of PSB Act. Committee has reviewed the succession plan of KMP on board nomination committee meeting held on 29.09.2022
	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.	**Complied with.** An Independent Director has chaired the meetings. As per the TOR, CEO participates at meetings by invitation. However, CEO has participated at all meetings.
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.	**Complied with.** The committee consists of 03 Non-Executive Directors, Chief Executive Officer and AGM-Risk Management. The Compliance Officer attends meetings by invitation.
	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.	**Complied with.** 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 it to the Board. Also, recommendations of the IRMC are submitted for the review of Board of Directors. Further, some risks have been improved reflecting the risk profile of the Bank.

Section	Principle	Level of Compliance during the year 2022
	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.	**Complied with.** Meeting minutes and specific quantitative and qualitative risk of the Assets and Liability Committee (ALCO), Management Committee, Operational Risk Committee and Operational and Premises Committee were reviewed by the BIRMC to ensure adequacy and effectiveness of committee operations. Further, the committee oversees their performance and benchmark based on the committee charter or TOR of such committees.
	d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	**Complied with.** Reports on Key Risk Indicators were reviewed by the committee.
	e) How many times the committee has met at least quarterly.	**Complied with.** The committee has met 04 times during the year 2022.
	f) The committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	**Complied with.** The formal disciplinary code is in place. The committee has taken decisions relating to risky matters through the committee papers. However, there are not any identified events for the year 2022.
	g) The committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	**Complied with.** Report on the Key Risk Indicators of the Bank is prepared on a monthly basis by AGM- Risk of the Bank and submitted at the very next Board meeting. Further, minutes of the IRMC meetings are submitted to the Board.
	h) The committee has established a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	**Complied with.** The compliance function of the Bank is headed by the Compliance Officer who is a KMP of the bank and a compliance risk assessment report is submitted to BIRMC periodically by the Compliance Officer.
3(7)	**Related party transactions**	**Complied with.**
3(7)(i)	There is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:	Board approved policy on Related Party Transaction which was updated in year 2022 is available.

Section	Principle	Level of Compliance during the year 2022
	a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the directors of the bank; d. Any of the bank's key management personnel; e. A close relation of any of the bank's directors or key management personnel; f. A shareholder owning a material interest in the bank; g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.	Transactions belonging to related parties can be captured through a system using the NIC based on their declarations.
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. 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.	**Complied with.** Related Party Transaction Policy which was updated in 2022 and approved by Board is in place. Related party transactions can be identified based on declarations provided.
3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.	**Complied with;** Accommodation granted to directors, their close relations and any concerns, shall be sanctioned at a meeting of the Board of Directors with not less than two thirds of the number of directors constituting the Board. Bank has implemented process to monitor Related Party Transactions which is monitored by Compliance Division and compliance status indicated in the compliance report is submitted to the BIRMC by quarterly/annually from 01.01.2022. Bank has not granted the more favorable treatment to any related parties during the year 2022.

Section	Principle	Level of Compliance during the year 2022
	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: I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. 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 III. Share capital and debt instruments with a maturity of 5 years or more.	
	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. This accommodation be secured by such security as may from time to time be determined by the Monetary board as well.	**Complied with.** Policy covers this requirement and no such occasions have been reported during the year in relation to Directors. Accommodation granted to KMP's is sanctioned by relevant authority levels of the bank based on circular guidelines issued relating to the staff loans.

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

Section	Principle	Level of Compliance during the year 2022
3(8)	**Disclosures**	
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.	**Complied with.** The note no 2.2 to the Financial Statements disclose that the Financial Statements have been prepared in accordance with Sri Lanka Accounting standards in compliance with the requirement of the Banking Act No.30 of 1988.
	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.	**Complied with.** Report of the Internal Control System Over Financial Reporting is given under the "Directors' Statement on Internal Control".
	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 Bank has obtained a certificate on the Effectiveness of Internal Controls over Financial Reporting from the Auditor General.
	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.	**Complied with.** Details of directors, including names, qualifications, and experience of the Board of Directors have been disclosed under profiles of Board of Directors. Further, Fees / remunerations paid to the Board of Directors have been disclosed note no. 14 of the Financial Statements.
	e) Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Total exposure to KMPs and close family members has been disclosed under note no.38 of the financial statements.

Section	Principle		Level of Compliance during the year 2022
	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.	**Complied with.** The aggregate value of remuneration paid to the Key Management Personnel and the aggregate value of transactions with Key Management Personnel are disclosed under note no.38.1 of the Financial Statements.
	g)	The Board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	**Complied with.** External Auditor's report on compliance with Corporate Governance Directions is included in the Annual Report.
	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.	**Complied with.** The details of the compliance with prudential requirements, regulations and laws and internal controls were included in the Directors Report.
	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.	**Not Applicable.** No such direction was given.

ATTENDANCE OF THE BOARD AND BOARD COMMITTEES

Names	Mr. Mahinda Saliya - Chairman	Dr. M. Nirmal De Silva - Board Director	Mr. W.M. Karunaratne - Board Director	Prof. H.W.M.A. Herath - Board Director	Mr. K. Raveendran - Board Director	Mr. G.A. Jayashanthe - Board Director	Mrs. Hiranthi Karunaratne - Board Director	Mr. M.S.S.S. Fernando - Board Director	Mr. Lalith Abeysirivardena - Board Director	Mrs. Krishani Narangoda - Board Director	Mr. W.A. Sarath Kumara - Board Director
Dates											
06.01.2022	P	P	P	P	P	P	P	P	P	N/A	N/A
20.01.2022	P	P	P	P	P	P	P	E	P	N/A	N/A
10.02.2022	P	E	E	P	P	E	E	P	P	P	N/A
25.02.2022	P	P	P	P	P	P	E	P	E	P	N/A
10.03.2022	P	P	P	P	E	E	P	E	P	P	N/A
01.04.2022	P	P	P	P	P	P	P	P	P	P	N/A
05.05.2022	P	R	P	P	P	P	P	P	P	P	N/A
26.05.2022	P	R	P	P	P Join via Zoom	P	P	P	P	P	N/A
10.06.2022	P	R	P	P	P	P	P	P	P	P	N/A
27.06.2022	P	R	P	P	P Join via Zoom	E	P	P	P	P	N/A
14.07.2022	P	R	P	P	E	E	E	P	P Join via Zoom	P	N/A
29.07.2022	P	R	P	P	P Join via Zoom	P Join via Zoom	E	P	P	P	N/A
18.08.2022	P	R	P	P	P	P	E	R	P	P	N/A
01.09.2022	P	R	P	P	P	P	P	R	P	P	N/A
05.09.2022	P	R	E	P	P	P	E	R	P	P	N/A
06.10.2022	P	R	P	P	P	E	E	R	P	P	N/A
26.10.2022	P	R	P	P	P	P	P	R	P	P	N/A
10.11.2022	P	R	P	P	P Join via Zoom	E	P	R	P	P	N/A
24.11.2022	P	R	E	P	P	P	P	R	P	P	N/A
08.12.2022	P	R	E	P	P	P	P	R	P	P	N/A
22.12.2022	P	R	P	P	E	P	P	R	P	P	P

ATTENDANCE OF THE BOARD AND BOARD COMMITTEES

Attendance of the Board Human Resource & Remuneration Committee

Dates	10.02.2022	19.05.2022	07.07.2022	29.09.2022	21.11.2022	22.12.2022
Names						
Mr. Mahinda Saliya - Chairman	P	P	P	P	P	P
Dr. Nirmal De Silva - Board Director	E	R	R	R	R	R
Mr. Lalith Abeysireardena - Board Director	P	P	P	P	P	P
Prof. H.M.W.A. Herath - Board Director	P	P	P	P	P	P

Attendance of the Board Nomination Committee

Dates	10.02.2022	26.05.2022	29.09.2022	21.11.2022
Names				
Mr. Mahinda Saliya - Chairman	P	P	P	P
Dr. Nirmal De Silva - Board Director	E	R	R	R
Mr. Lalith Abeysiriwardena - Board Director	P	P	P	P
Prof. H.M.W.A. Herath - Board Director	P	P	P	P
Mrs. Hiranthi Karunaratne - Board Director	E	P	P	P

Attendance of the Board Integrated Risk Management Committee

Dates	25.02.2022	18.05.2022	27.07.2022	14.10.2022
Names				
Mr. K. Raveendran Board Director/ Committee Chairman	P	P	P Join via Zoom	P
Prof. H.M.W.A. Herath - Board Director	P	P Join via Zoom	P Join via Zoom	P
Dr. Nirmal De Silva - Board Director	P	R	R	R
Mr. G.A. Jayashantha - Board Director	P	P	P Join via Zoom	P

Attendance of the Board Audit Committee

Dates	28.02.2022	20.06.2022	29.08.2022	31.10.2022	21.11.2022
Names					
Mr. M.S.S.S. Fernando - Board Director/ Chairman of BAC	P	P Join via Zoom	R	R	R
Mr. W.M. Karunaratne - Board Director/ Chairman of BAC	P	P	P	P	P
Mr. Lalith Abaysiriwardena - Board Director	P	P	P	P	P
Mr. G.A. Jayashantha - Board Director	P	P	P	P	P
Mrs. Krishani Narangoda - Board Director	N/A	P	P	P	P

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 thirteenth year ended 31st December 2022. 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 Sanwardana 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 Lankan's mainly by granting financial assistance to Micro Finance Institutions, women led enterprises and Small and Medium Enterprises.

Vision, Mission

The Bank's Vision and Mission are given on page 4 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 thirteenth year ended 31st December 2022, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 119 and form an integral part of the Annual Report of the Board of Directors.

Directors' Responsibilities for Financial Reporting

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

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

Auditor's Report

The Auditor General carried out the audit of the Bank for 2022, the audit was carried out throughout the year. Issues identified in their report were submitted to the management regularly for prompt action. Having confirmed the accuracy of the financial reporting, the Financial Statements, together with the necessary data and information, were made available to the Auditor General for examination. The Auditor General's opinion on the Financial Statements appears on page 114 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka. It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

Significant Accounting Policies

Significant accounting policies adopted in the preparation of Financial Statements are given on pages 126 to 139.

Directors' Remuneration

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

Future Developments

An overview of future developments of the Bank is given in the Chairman's statement (pages 10 to 13), the General Manager/ CEO's review (pages 14 to 17) and the Management Discussion and Analysis (pages 36 to 69)

Review of Business Performance
A review of the Bank's performance during the financial year 2022 is contained in the Chairman's statement (pages 10 to 13), the General Manager/ CEO's review (pages 14 to 17) and the Management Discussion and Analysis (pages 36 to 69). These reports form an integral part of the Annual Report.

ANNUAL REPORT OF THE BOARDOF DIRECTORS

Financial Results

The Bank's financial and operational performance is given on the General Manager / CEO's Review on pages 14 to 17 and in the Financial Highlights on pages 8 to 9.

Stated Capital

The total shareholders' fund as at 31.12.2022 is Rs.16.2 Billion. The Stated Capital contributed by shareholders at the end of year is Rs.8.22 Billion and their percentage of shareholding is as follows.

		No. of Share	%
01.	General Treasury	501,941,973	91
02.	Bank of Ceylon	16,448,448	3
03.	People's Bank	16,448,448	3
04.	National Savings Bank	16,452,126	3
	Total	551,290,995	100

Income

The gross income of the Bank for 2022 was Rs.36.20 Billion. Details of the income are given on page 141.

Taxation

The Bank contributed Rs. 2,940 Million by way of taxes and levies to the Government in 2022. This consisted of Rs. 1,301 Million of Income Tax, Rs 1561 Million of Financial Services Value Added Tax and Rs. 78 Million of Social Security Contribution Levy. The Income Tax Rate applicable on the Bank's operations is 30%. It is the Bank's policy to provide for deferred taxation on all known temporary differences under the liability method.

Property, Plant & Equipment

The total capital expenditure incurred by the Bank on the acquisition of Property, Plant & Equipment, Leasehold Property and Intangible Assets during the year amounted to Rs. 210 Million (2021 Rs. 326 million), the details of which are given in notes 24 and 25 of the Financial Statements on pages 152 to and 158 of this Annual Report.

Events After the Balance Sheet Date

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

Outstanding Litigation

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

Capital & Reserves

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

	2022 Rs.	2021 Rs.
Stated Capital	**8,221,864,565**	8,047,229,930
Statutory Reserve Fund	**845,247,866**	777,778,133
Special Reserve Fund	**699,638,194**	632,168,461
General Reserve Fund	**3,569,591,213**	3,299,712,282
Retained Earnings	**2,889,785,537**	2,636,433,520
Total	**16,226,127,375**	15,393,322,327

Dividends

In view of marginal operating results of the year 2022 and capital shortfall, the Board of Directors have not approved a dividend distribution out of profits for the year 2022.

Board of Directors

The Board of Directors comprises 11 Members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 20 to 25 of this Annual Report.

Mr. M. Mahinda Saliya - Chairman
Mr. K. Raveendran - Non- Independent / Non-ExecutiveDirector
Mr. W.M. Karunarathne - Independent / Non-ExecutiveDirector
Prof. H.M.W. Ariyarathne Herath - Independent / Non-Executive Director
Dr. Nirmal De Silva - Independent / Non-Executive Director
Mr. Lalith Abeysiriwardena - Independent / Non-Executive Director
Mr. G.A. Jayashantha - Non- Independent / Non- Executive Director

Mrs. Hiranthi Karunaratne - Independent / Non-Executive Director
Mr. M.S.S.S. Fernando - Non-Independent / Non-Executive Director
Mrs. Krishani Narangoda - Non- Independent / Non-Executive Director
Mr. W.A. Sarath Kumara - Non-Independent / Non-Executive Director

Resignation of Directors

Dr. Nirmal de Silva - Independent/ Non-Executive Director, Resigned from 04.04.2022

Mr. M.S.S.S. Fernando - Non- Independent / Non-Executive Director, Resigned from 29.07.2022

Mrs. Krishani Narangoda - Non- Independent / Non-Executive Director, Resigned from 22.12.2022

New Appointment of Directors

Director	Appointment Date
Mr. W.A. Sarath Kumara	26.08.2022
Mrs. Krishani Narangoda	10.01.2022

Board Sub Committees

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

Board Audit Committee

1. Mr.M.S.S.S.Fernando (Chairman of the Committee) (appointed on 28.02.2022)
2. Mr. W.M. Karunaratne
3. Mr. Lalith Abeysiriwardena
4. Mr. G.A. Jayashantha
5. Mrs. Krishani Narangoda (appointed on 20.06.2022)
6. An Audit Superintendent of National Audit Office
7. Mr. C.L.C. Muthubanda - AGM - Internal Audit
8. Mr.J.Priyashantha - Chief Internal Auditor (from 29.08.2022)

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

Board Integrated Risk Management Committee

1. Mr. K. Raveendran (Chairman of the Committee)
2. Prof. H.M.W.A. Herath
3. Dr. Nirmal De Silva (resigned w.e.f.04.04.2022)
4. Mr. G.A. Jayashantha
5. Mr. A.H.M.M.B. Jayasinghe - GM/CEO (from 25.02.2022)
6. Mr. Sumeda Edirisuriya - GM/CEO (Covering up of Duties) (from 05.09.2022)
7. Mrs. H.M.N.M. Herath - AGM - Risk Management
8. Mrs. T. K. Wijeratne - AGM - Compliance

Report of the Integrated Risk Management Committee is given on page 103 which forms part of the Directors' Report

Board Human Resource and Remuneration Committee

1. Mr. M. Mahinda Saliya (Chairman of the Committee)
2. Dr. Nirmal De Silva (resigned w.e.f.04.04.2022)
3. Mr. Lalith Abeysiriwardena
4. Prof. H.M.W.A. Herath
5. Mrs. Hiranthi Karunaratne (appointed on 21.11.2022)
6. Mr. A.H.M.M.B. Jayasinghe - GM/CEO (from 10.02.2022)
7. Mr. Sumeda Edirisuriya - GM/CEO (Covering up of Duties) (from 05.09.2022)
8. Mr. D.K.S. Serasinghe - Chief Human Resource Officer

Board Nomination Committee

1. Mr. M. Mahinda Saliya (Chairman of the Commitee)
2. Dr. Nirmal De Silva (resigned w.e.f.04.04.2022)
3. Mr. Lalith Abeysiriwardena
4. Prof. H.M.W.A. Herath
5. Mrs. Hiranthi Karunaratne
6. Mr. A.H.M.M.B. Jayasinghe - GM/CEO (from 10.02.2022)
7. Mr. Sumeda Edirisuriya - GM/CEO (Covering up of Duties) (from 05.09.2022)
8. Mr. D.K.S. Serasinghe - Chief Human Resources Officer

ANNUAL REPORT OF THE BOARD OF DIRECTORS

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 and the attendance of Directors at these meetings are given on Corporate Governance Report pages 93 to 94 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 (LKAS 24) Related Party Disclosures, which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 38 to the Financial Statements.

General Manager/Chief Executive Officer

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

Human Resources

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

Operational Excellence

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

Environmental Protection

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

Statutory Payments

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

Risk Management Internal Controls and Management Information System

The Board of Directors assumes overall responsibility for managing risk. For this purpose, the Board of Directors has instituted and implemented an effective and comprehensive system of internal controls and management information systems in the Bank. Internal control systems have been re-designed to mitigate the risks to which the Bank is exposed to and provide reasonable assurance against material misstatements or loss. There is an ongoing process for identifying, evaluating and managing the risks that are faced by the Bank. The specific measures taken by the Bank in mitigating the risks are detailed on pages 60 to 69 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 109 to 110. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 107 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 73 to 92 for which the Board has obtained a Report of Factual Findings from the Auditor General.

Compliance with Laws, Regulations and Prudential Requirements

The Bank has at all times ensured that it is 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 2022.

By the order of the Board

Thilani Rajapakse
Secretary to the Board

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

Introduction

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

The scope of BHRRC includes,

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

The scope of BNC includes,

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

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

Composition and Meetings

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

Six (06) Board Human Resources and Remuneration Committee meetings and Four (04) Board Nomination Committee meetings were held during the year ended 31st December 2022.

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

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

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

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

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

Board Human Resources and Remuneration Committee Members;

Name	Attended/ Eligible
Mr. M. Mahinda Saliya – Chairman (Appointed w.e.f. February 26, 2020)	06/06
Dr. Nirmal De Silva – Director (Resigned w.e.f. April 01, 2022)	01/01
Mr. Lalith Abeysiriwardena – 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
Mrs. Hiranthi Karunaratne – Director (Appointed w.e.f. November 21, 2022)	02/02
Mr. P. S. Edirisuriya – General Manager/ CEO (Covering up Duties)	
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)	04/04
Dr. Nirmal De Silva – Director (Resigned w.e.f. April 01, 2022)	00/01
Mr. Lalith Abeysiriwardena – Director (Appointed w.e.f. February 26, 2020)	04/04
Prof. H.M.W.A. Herath – Director (Appointed w.e.f. February 26, 2020)	04/04
Mrs. Hiranthi Karunaratne – Director (Appointed w.e.f. February 10, 2022)	03/04
Mr. P. S. Edirisuriya – General Manager/ CEO (Covering up Duties)	
Mrs. R.M.T. Rajapakse – Board Secretary	

Summary of Activities

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

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

D.L. De Z. Abeysiriwardena
Director
Board Human Resources and Remuneration Committee
Board Nomination Committee

BOARD AUDIT COMMITTEE (BAC) REPORT

The Board Audit Committee was constituted in accordance with the Banking Act Direction No. 12 of 2007 on "Corporate Governance for Licensed Specialized Banks" issued by the Central Bank of Sri Lanka under Section 3 (6) (ii) and its subsequent amendments, provision of the Public Enterprises Guidelines for Good Governance and "Code of Best Practice on Corporate Governance" issued by The Institute of Chartered Accountants of Sri Lanka. Proceedings of BAC are based on the Charter and Terms of Reference adopted by the Board of Directors for the functioning of the committee.

The committee comprises of following Non-Executive Directors as at the end of the year.

1. Mr. W.M. Karunaratne (Chairman-Since 29.08.2022)

2. Mr. Lalith Abeysiriwardhana

3. Mr. G.A.Jayashantha

4. Mrs. Krishani Narangoda (appointed on 20.06.2022)

The Board Secretary functions as the secretary to the BAC. General Manager/CEO, Chief Finance Officer, Chief Internal Auditor, Assistant General Manager (Risk Management) and Assistant General Manager (Compliance) attend the BAC meetings on invitation. A representative of the National Audit Office (the External Auditor of the Bank) also attends these meetings.

The BAC is empowered by the Board of Directors in discharging its responsibilities and fulfilling its oversight responsibilities for -

- Reviews the financial reporting process to ensure the compliance with financial reporting requirements under the statute.
- Examines the system of internal control and management of business risks.
- Reviews the audit processes, both external and internal.
- Reviews the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.

Five (05) meetings were held during the financial year ended 31 December 2022.The Committee during the year under review attended to the following:

- Reviewed quarterly financial performance of the Bank for the year 2022 and recommended to submit the same to the Board.
- Reviewed and discussed issues raised at CBSL Statutory Examinations and follow-up examinations and monitored the progress of rectification.
- Periodic review of internal audit reports and the performance of the Internal Audit Department.
- Reviewed the Report of the Auditor General that was submitted to the Parliament on the Financial Statements of the Bank for the year ended 31 December 2022.
- Reviewed and discussed the reports submitted by the National Audit Office where deemed necessary actions were initiated.
- Reviewed the special reports such as system related issues and some macro level reports issued by the Internal Audit Department of the Bank.

The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMs/Heads of the Departments and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information/approval.

The BAC also followed up on corrective measures taken by the management during the year 2022 on matters raised by CBSL Statutory Examination Reports.

The BAC ensured the provision of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in preparation and presentation of Financial Statements. The BAC is of the view that adequate controls and procedures are in place and Charter of the BAC were complied with all material aspects.

W.M. Karunaratne
Chairman
Board Audit Committee

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Composition of the Committee

During the year under review the Board Integrated Risk Management Committee (BIRMC) consisted of the following four Non-Executive Directors, whose profiles are given on page 20 to 25.

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

1. Mr. K. Raveendran - Director (Chairman of the Committee /Non-Executive Director)

2. Prof. H.M.W.A. Herath - Non-Executive Director

3. Dr. Nirmal De Silva - Director (Non-Executive Director)

4. Mr. G.A. Jayashantha - Non-Executive Director

Regular attendants on Chief Executive Officer (CEO), CRO/Assistant General Manager Risk Management and Compliance Officer attended the meetings on regular basis during the year 2022.

Secretary to the Committee

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

BIRMC meets on a quarterly basis and more frequently if required.

Minimum quorum of the Committee is two non-executive directors, CEO and CRO as per the charter of the BIRMC.

During the year under review, the BIRMC held four (04) meetings.The proceedings of the Committee meetings were regularly reported to the Board of Directors

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

Meetings

Name of the Committee member	Attendance
Mr. K. Raveendran - Director	04/04
Prof. H.M.W.A. Herath - Director	04/04
Dr. Nirmal De Silva - Director	01/04
Mr. G.A. Jayashantha - Director	04/04

Charter of the Committee

The BIRMC has been established by the Board of Directors, in compliance with Section 3 (6) of the Direction No. 12 of 2007, on "Corporate Governance for Licensed Commercial Banks in Sri Lanka", issued by the Monetary Board of the CBSL under powers vested in the Monetary Board, in terms of the Banking Act No. 30 of 1988.

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

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

1. Ensure the risk management strategy, framework and methodology are implemented/practiced throughout the Bank consistently as per the Integrated Risk Management (IRM) Framework.

2. Adequacy and effectiveness of risk identification, measurement, monitoring and mitigation relating to credit, market, liquidity, operational and compliance risks.

3. To ensure that risk decisions are taken in accordance with established delegated authorities and corrective actions are taken to mitigate risk taken beyond the risk tolerance set by the committee, on the basis of the Bank's policies and regulatory and supervisory requirements.

4. Monitor and access the effectiveness of the Bank's Risk Management System and the robustness of the risk management function.

5. Setting Risk Appetite and Tolerance limits to the Bank.

6. To review progress on Basel III road map implementation and regulatory guidelines.

7. Reviewing and upgrading Risk Management Policies of the Bank.

8. Determine the scope of the Risk Management Division (RMD) and to guide the function of RMD to ensure effective implementation of the IRM Framework.

Main Focus

The Main focus of the committee is to assist the Board of directors in all aspects of the risk of the Bank. In this concern ,the committee has reviewed the risk appetite of the Bank by focusing credit ,liquidity ,operation ,market and stratergic risk of the Bank.

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Activities in 2022

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

1. Reviewed and revised the existing risk related policies and recommended the policies/ manuals/charters of the committees based on the current risk profile of the Bank.

Risk Management Policies reviewed and revised during the year 2022	
Stress Testing Policy	Outlines the Stress Testing Framework of the Bank
Interest rate risk Management Policy	Framework for identification, assessment, management and mitigation of Interest rate risk.
Liquidity Risk Management Policy	Framework for identification, assessment, management and mitigation of Liquidity risk.
Foreign Exchange Risk Management Policy	Framework for identification, assessment, management and mitigation of Foreign Exchange risk.
Operational Risk Management	Framework for management of operational risk events at RBD as well as high level principles for risk identification, mitigation and reporting
Credit Risk Management Policy	Framework to keep a balance between risks & opportunities and act as a tool to create the credit culture within the Bank.
Policies related to other functions of the Bank which has been reviewed and revised during the year 2022.	
Related party transactions Policy	Guideline and procedures on related party transactions
Compliance Policy	Framework for management of compliance risk of the Bank
Information Security Policy	Outlines rules and guidelines related to the security of the information within the Bank and its networks.
Acceptable Usage policy	Outline the acceptable use of Computer Equipment and Information Resources provided by RDB IT Department.
Anti Money Laundering (AML) Policy	Guidelines and procedures for ensuring anti money laundering of the Bank
Liquidity contingency funding policy	Provides a framework for the Bank to evaluate increasingly severe illiquidity situations, and monitor the availability of funding over these unexpected situation.
Committee Charters reviewed and revised during the year 2022	
Board Integrated Risk Management committee charter	Reviewed the terms and reference of the BIRMC is to overlook the risk profile and approve risk management framework of the Bank
Executive Operational Risk Management sub committee	Reviewed the terms and reference of the ORMEC which overlook the unexpected direct or indirect losses resulting from inadequate or failed internal processes, people, systems and external events caused by Credit or Market Risk of the Bank

2. The Key Risk Indicators (KRIs) that upgraded to monitor the level of specific risks were reviewed regularly, with a view to determining the adequacy of such indicators to serve the intended risk management objectives and proactive measures to control risk exposures. The actual monthly results were reviewed against benchmarks and prompt corrective actions were recommended to mitigate the effects of specific risks.

3. Main focus area for the year 2022 was the pressure of economic crisis in the country on the deterioration of the credit quality of the financial sector due to the financial stress situation within the country ,the economy has experienced a inflationary pressure and the pressure on managing foreign exchange rate. During the year , the CBSL has tied the monetory policy time to time and the Bank has faced challenges from the economic crisis during the whole year .The Bank has established mitigation and control measures to arrest deterioration of credit quality.

4. Reviewed reports on Risk Appetite Framework and Risk Tolerance Limit, quarterly report on overall risk management aspect of the Bank.

5. Reviewed the Internal Capital Adequacy Assessment Process (ICAAP) document of the Bank and reviewed the Capital Planning of the Bank .

6. Emphasized the reporting requirement on adequacy and effectiveness of all management committees through analyzing the feedback of the committee members through predetermined questionnaire.

7. Monitored and reviewed the sectorial limits of the loan portfolio of the bank which have gone beyond their approved limits and made recommendations for the adjustments.

8. Quarterly assessed the risk on maturity gap ,foreign exchange risk ,interest rate risk and further conducted the stress testing on the above areas.

9. Monitored and reviewed Loan Review Mechanism of the Bank.

10. Reviewed the comprehensive Compliance Reports submitted by the Compliance Officer to assess the extent of compliance with the regulatory requirements.

11. Reviewed the process of Implementation of Anti Money Laundering (AML) System .

12. Monitored and reviewed the statutory examination report and made all possible recommendations to rectify the issues.

13. Monitored and reviewed the all types of risk indicators such as cyber risk reports, Interest rate risk , Foreign Exchange risk, operational risk, compliance risk, etc and made recommendations to minimize the risks.

14. Monitored Disaster Recovery drill of the bank and made all possible recommendations for the success of the DR Drill.

15. Established Information Security Committee which was proposed by the banking act Direction no 16 of 2021.

16. Reviewed and Submitted a report on the current status of the ongoing VAPT for 2022 to the perusal of the BIRMC

17. Closely worked with the risk management department of the bank for knowledge enhancement of the department.

18. Closely monitored the function of the executive level Operational Risk Management sub committee(ORMC) to assess and mitigate the operational risk of the Bank on a monthly basis.

19. Monitored and reviewed the action plan of the Risk Management and Compliance Departments

Reporting

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

During the year 2022, the BIRMC supported execution of the overall business strategy of the Bank within a risk parameters set, that are reinforced by an effective risk management framework and activities were regularly reported to the Board of Directors.

Conclusion

The members of the Integrated Risk Management Committee in 2022 has evaluated its performance for effectiveness and efficiency by acting collectively. The Committee continually reviews the various risk areas encountered by the bank and were able to promote a robust risk governance framework through the following,

1. A well-developed risk management policy covering determination of risk appetite.

2. Effectively communicating the results of stress tests or scenario analyses, peer bank analysis and data analysis. Ensuring that risk reporting accurately communicates to the Board of Directors.

3. Increasing awareness among staff over the need for managing risks, ensuring compliance and training staff are important components of creating risk culture.

The Committee is of the view that the Bank is on the right path towards meeting the challenges of Risk Management and compliance safeguarding the interests of Bank's stakeholders.

On behalf of the Integrated Risk Management Committee

S.N.B.M.W. Narayana
Chairman
Integrated Risk Management Committee

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of the Pradeshiya Sanwardana Bank as at 31st December 2022 are prepared and presented in compliance with the following regulatory requirements:

1. Sri Lanka Accounting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka

2. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995

3. Banking Act No. 30 of 1988 and amendments thereto

4. Directions, circulars and guidelines issued to Licensed Specialized Banks by the Central Bank of Sri Lanka including but not limited to Banking Act Direction No. 12 of 2007 issued by the Central Bank of Sri Lanka on corporate governance; and

5. Pradeshiya 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 Specialized Banks, issued by the Central Bank of Sri Lanka.

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

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

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

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

The Financial Statements of the Bank was audited by National Audit Office. The Report issued by Auditor General is available on pages 114 to 116 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 page 102 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 41 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.

P.S. Edirisuriya
General Manager/CEO
(Covering up of Duties)

P.S. Edirisuriya
Chief Financial Officer

29th August 2023

AUDITOR GENERAL'S REPORT ON THE STATEMENT OF INTERNAL CONTROL

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

My No. BAN/E/RDB/IC/2022 | Your No. | Date 09 July 2024

The Chairman,

Pradeshiya Sanwardana Bank

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Control over Financial Reporting 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 2022.

Management's responsibility

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

My Responsibility and Compliance with SLSAE 3050 (Revised)

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

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

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

Summary of work performed

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

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

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

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AUDITOR GENERAL'S REPORT ON THE STATEMENT OF INTERNAL CONTROL

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

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

Conclusion

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

W.P.C.Wickramaratne
Auditor General

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Requirement

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

Responsibility

The Board of Directors is responsible for Internal Control in Pradeshiya 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 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 approved Operational Manual in relation to the Financial and other controls of the Bank is in place and has been communicated to all members of the staff. Further, an updated operational manual has been developed and yet to be communicated to all staff of the bank upon receipt of board approval

- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report.

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

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

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

Confirmation

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

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 2022 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

General Manager/CEO
(Covering up of Duties)

06/09/2023

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

Financial Statements

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

The Directors acknowledge that in the preparation of Financial Statements for the period ended 31st December 2022, 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 2022 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 2022.

Going Concern

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

Internal Control, Risk Management and Compliance

The Directors are also responsible for the system of internal financial controls and risk management and paying significant attention on maintaining a strong control environment to protect and safeguard the Bank's assets and prevent fraud and mismanagement. Whilst emphasizing inherent risks that cannot be completely eliminated, the Bank has taken possible steps to mitigate them by ensuring various systems and other controls. A report by the Directors on the Bank's internal control mechanism confirming that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting is given on pages 109 and 110 of the Annual Report.

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

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

The Audit Committee and Integrated Risk Management Committee, on an ongoing basis, play a significant role in strengthening the effectiveness of internal controls and risk management procedures. The reports of the Audit Committee and Integrated Risk Management Committee are included on page 102 and 103 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'

Thilani Rajapakse
Secretary to the Board

FINANCIAL REPORTS

AUDITOR GENERAL'S REPORT

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAN/E/RDB/1/2022/41	ඔබේ අංකය / உமது இல. / Your No.	දිනය / திகதி / Date 22 June 2023

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 2022 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1. Opinion

The audit of the financial statements of the Pradeshiya Sanwardana Bank (the "Bank") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2. Basis for Opinion

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

1.3. Other information included in the Bank's 2022 Annual Report

The other information comprises the information included in the Bank's 2022 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.

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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 2022 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

AUDITOR GENERAL'S REPORT

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

2. Report on Other Legal and Regulatory Requirements

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

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

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

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

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

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

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

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

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

W.P.C.Wickramaratne
Auditor General

STATEMENT OF PROFIT OR LOSS

Year ended 31 December	Note	2022 Rs.	2021 Rs.
Gross income	7	**36,202,749,629**	24,492,768,957
Interest income		**35,273,433,857**	23,545,299,165
Interest expenses		**(19,639,529,550)**	(9,893,373,234)
Net interest income	8	**15,633,904,307**	13,651,925,931
Fee and commission income		**806,547,782**	935,136,855
Fee and commission expenses		**(355,184,923)**	(312,112,052)
Net fee and commission income	9	**451,362,859**	623,024,803
Net trading gain/(loss)	10	**102,296,546**	(24,214,945)
Other operating income (net)	11	**20,471,444**	36,547,883
Total operating income		**16,208,035,156**	14,287,283,672
Impairment charges	12	**(2,852,677,176)**	(3,256,775,862)
Net operating income		**13,355,357,980**	11,030,507,810
Less-Operating expenses			
Personnel expenses	13	**(8,739,537,602)**	(7,292,269,883)
Depreciation and amortization expenses		**(532,733,987)**	(520,988,009)
Other expenses	14	**(2,084,970,281)**	(1,290,468,186)
Operating profit before taxes		**1,998,116,109**	1,926,781,733
Less : Value Added Tax on Financial Services		**(1,561,474,848)**	(1,151,277,133)
Social Security Contribution Levy		**(77,525,933)**	-
Profit before Income tax expense		**359,115,328**	775,504,600
Income tax (expense) /reversal	15	**990,279,323**	(469,201,889)
Profit for the year		**1,349,394,652**	306,302,711
Earnings per share			
Basic Earnings per share	16.1	**2.45**	0.56
Diluted Earnings per share	16.2	**2.45**	0.56

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 123 to 199.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2022 Rs.	2021 Rs.
Profit for the year		**1,349,394,652**	306,302,711
Other Comprehensive income/(expenses)			
Other Comprehensive income not to be reclassified to profit or loss			
Actuarial gain on retirement benefit obligation	34.3	**156,249,438**	(35,917,534)
Deferred tax effect on above		**(46,874,831)**	8,620,208
Total Other Comprehensive income for the year, net of taxes		**109,374,607**	(27,297,325)
Total comprehensive income for the year		**1,458,769,259**	279,005,386

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 123 to 199.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2022 Rs.	2021 Rs.
Assets			
Cash and cash equivalent	18	**2,889,883,677**	1,486,878,989
Placements with banks	19	**6,133,705,351**	6,596,072,932
Equity instruments at fair value through profit or loss	20	**120,280**	188,140
Financial assets at amortised cost - Loans and receivables from other customers	21	**198,008,145,155**	175,229,666,656
Financial assets at amortised cost - Debt & other instruments	22	**65,079,635,908**	54,856,210,318
Equity instruments at fair value through other comprehensive income	23	**2,289,919**	2,289,919
Property, plant and equipment	24	**926,615,241**	928,568,438
Intangible assets	25	**68,867,744**	113,688,780
Right of use assets	26.1	**718,096,698**	506,092,023
Deferred tax assets	27	**3,525,174,919**	1,263,795,071
Other assets	28	**8,042,615,550**	4,907,060,297
Total assets		**285,395,150,443**	245,889,511,563
Liabilities			
Due to banks	29	**47,470,707,056**	29,500,936,543
Due to other customers	30	**210,301,323,468**	187,752,465,256
Debt issued and other borrowed funds	31	**-**	2,000,000,000
Current tax liabilities	32	**1,011,924,146**	503,021,886
Other liabilities	33	**7,293,487,262**	7,693,300,812
Retirement benefit obligation	34	**3,091,581,136**	3,046,464,739
Total liabilities		**269,169,023,068**	230,496,189,235
Equity			
Stated capital	35	**8,221,864,565**	8,047,229,930
Statutory reserve fund	36	**845,247,866**	777,778,133
Retained earnings		**2,889,785,536**	2,636,433,521
Other reserves	37	**4,269,229,407**	3,931,880,744
Total shareholders' equity		**16,226,127,375**	15,393,322,328
Total equity and liabilities		**285,395,150,443**	245,889,511,563
Contingent liabilities and commitments	40	**380,380,046**	225,888,152

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 123 to 199.

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

P.S. Edirisuriya
General Manager / CEO (Covering up of Duties)

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

Chairman/ Director

Director

16 June 2023
Colombo

STATEMENT OF CHANGES IN EQUITY

	Stated Capital Note 35 Rs.	Statutory Reserve Fund Note 36 Rs.	Special Reserve Fund* Note 37 Rs.	General Reserve Fund Note 37 Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01st January 2021	8,047,229,930	762,462,998	616,853,326	3,238,451,740	2,449,318,948	15,114,316,941
Total Comprehensive Income for the year						
Profit for the year	-	-	-	-	306,302,711	306,302,711
Other comprehensive Income, net of tax	-	-	-	-	(27,297,325)	(27,297,325)
Total comprehensive income for the year	-	-	-	-	279,005,386	279,005,386
Transactions with equity holders, recognized directly in equity						
Transferred to Statutory Reserve Fund	-	15,315,136	-	-	(15,315,136)	-
Transferred to Special Reserve Fund	-	-	15,315,136	-	(15,315,136)	-
Transferred to General Reserve Fund	-	-	-	61,260,542	(61,260,542)	-
Transactions with equity holders, recognized directly in equity	-	15,315,136	15,315,136	61,260,542	(91,890,813)	-
Balance as at 31st December 2021	8,047,229,930	777,779,133	632,168,462	3,299,712,282	2,636,433,521	15,393,322,327
Balance as at 01st January 2022	**8,047,229,930**	**777,778,134**	**632,168,462**	**3,299,712,282**	**2,636,433,521**	**15,393,322,328**
Adjustment for Surcharge Tax levied under the Surcharge Tax Act No. 14 of 2022 (Note 15.5)	-	-	-	-	**(800,598,848)**	**(800,598,848)**
Adjusted balance as at 1st January 2022	**8,047,229,930**	**777,778,134**	**632,168,462**	**3,299,712,282**	**1,835,834,673**	**14,592,723,480**
Total Comprehensive Income for the year						-
Profit for the year	-	-	-	-	**1,349,394,652**	**1,349,394,652**
Other comprehensive Income, net of tax	-	-	-	-	**109,374,607**	**109,374,607**
Total comprehensive income for the year	-	-	-	-	**1,458,769,259**	**1,458,769,259**
Transactions with equity holders, recognized directly in equity						
Issued stated capital	**174,634,635**	-	-	-	-	**174,634,635**
Transferred to Statutory Reserve Fund	-	**67,469,733**	-	-	**(67,469,733)**	-
Transferred to Special Reserve Fund	-	-	**67,469,733**	-	**(67,469,733)**	-
Transferred to General Reserve Fund	-	-	-	**269,878,930**	**(269,878,930)**	-
Transactions with equity holders, recognized directly in equity	**174,634,635**	**67,469,733**	**67,469,733**	**269,878,930**	**(404,818,396)**	**174,634,635**
Balance as at 31st December 2022	**8,221,864,565**	**845,247,866**	**699,638,194**	**3,569,591,213**	**2,889,785,536**	**16,226,127,375**

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 123 to 199.

STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2022 Rs.	2021 Rs.
Cash flow from operating activities			
Profit before tax		**359,115,328**	775,504,601
Adjustment for:			
Non-cash items included in profit before tax			
Depreciation of property, plant and equipment/ Amortization of ROU	24	**487,812,469**	490,215,777
Amortization of intangible assets	25	**46,808,061**	30,772,231
Interest expense on leases	26.2	**49,991,183**	229,798,098
Interest expense on debentures		**76,176,663**	311,500,000
Dividend income	10	**(4,384,680)**	(10,209,840)
Staff loan adjustment		**-**	-
Impairment charges	12	**2,852,677,176**	3,256,775,862
Changes in equity Instruments at fair value through profit or loss	10	**67,860**	(42,980)
Exchange gain/ (loss)	10	**(97,979,726)**	34,467,765
Charge for retirement benefit obligation	34.1	**567,113,577**	379,779,626
Movements of other funds		**-**	-
(Profit) / loss on sale of Property, plant and equipment	11	**93,147**	(18,134,116)
(Profit) / loss on sale of intangible assets	11	**-**	-
Recoveries of NPL loans (Written Off)	11	**(411,274)**	(441,823)
Changes in operating assets			
Net change in loans and receivables from other customers		**(25,603,792,299)**	(21,794,891,917)
Net Change in other assets		**(3,150,740,674)**	(2,167,393,709)
Net change in Financial investments at amortised cost-Debt & other instruments		**(6,566,581,516)**	(1,033,112,853)
Changes in operating liabilities			
Net change in due to banks		**1,875,544,521**	3,081,261,163
Net change in due to other customers		**22,548,858,212**	14,869,832,978
Net change in other liabilities		**(651,469,639)**	1,456,574,150
Gratutiy paid	34.1	**(66,254,402)**	(134,929,431)
Taxes on financial services			-
Tax Paid	32	**(1,609,671,944)**	(695,837,450)
Net cash generated from/(used in) operating activities		**(8,887,027,959)**	(938,511,867)
Cash flows from investing activities			
Purchase of Property, plant and equipment	24	**(207,875,911)**	(202,693,190)
Purchase of intangible assets	25	**(1,987,025)**	(123,380,926)
Withdrawal / (Investment) in Debenture	22.1	**-**	392,280,000
Investment in Fixed deposits (more than three months)	22.2	**(17,403,319,430)**	(3,220,344,943)
Proceeds from the sale of property, plant and equipment		**(779,590)**	17,453,993
Dividend Income Received	10	**4,384,680**	10,209,840
Net cash (used in)/from investing activities		**(17,609,577,277)**	(3,126,475,226)

STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2022 Rs.	2021 Rs.
Cash flows from financing activities			
Payment of principal of Operating Lease	26.2	**(327,195,209)**	(326,522,434)
Net proceeds from the Term Loans	29	**15,494,249,151**	4,807,413,840
Redemption of Debentures	31.1	**(2,000,000,000)**	-
Interest paid on debentures	31.1	**(76,176,663)**	(311,500,000)
Net cash from financing activities		**13,090,877,279**	4,169,391,406
Net increase/(decrease) in cash & cash equivalents		**(13,405,727,957)**	104,404,312
Cash & cash equivalents at the beginning of the year		**43,570,748,513**	43,466,344,201
Cash and cash at the end of the year		**30,165,020,556**	43,570,748,513
Reconciliation of Cash & Cash Equivalents			
Cash and cash equivalent	18	**2,889,883,677**	1,496,878,989
Favorable balances with banks			
Placements with Banks	19	**6,133,705,351**	6,596,072,932
Fixed deposits less than three months	22.2	**21,726,025,221**	35,579,154,747
Unfavorable balances with banks		**(584,593,693)**	(91,358,155)
		30,165,020,556	43,570,748,513

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 123 to 199.

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

Permanent, training and contract staff strength of the bank as at 31 December 2022 was 3,980 (3,226 as at 31 December 2021).

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

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

1.4 Approval of Financial Statements by Board of Directors
The Financial Statements of the Bank for the year ended 31 December 2022 were authorized for issue by the Board of Directors on 16th June 2023.

2. Basis of Preparation

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

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

2.2 Statement of Compliance
The Financial Statements, as at 31 December 2022 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto.

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

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

NOTES TO THE FINANCIAL STATEMENTS

2.5 Offsetting

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

2.6 Comparative Information

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

2.7 Presentation of Financial Statements

The items of the Bank presented in their Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 43.

2.8 Statement of Alternative Treatment (SoAT)

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

3. Use of Estimates and Judgements

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

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

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

(i) Judgements
(a) Classification of Financial Assets

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

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

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

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

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

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

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

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

Fair value of financial instruments

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

Taxation

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

Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, which results in adjustments to tax income and expenses and deferred tax amounts that were initially recorded in the Financial Statements, Note 15, Note 27 and Note 32.

Measurement of Defined Benefit Obligations

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

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

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

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

Commitments and Contingencies
All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

NOTES TO THE FINANCIAL STATEMENTS

4. Changes in Accounting Policies

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

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

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

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

As at 31 December 2022, the IBORs for certain key currencies to which the Bank has exposure to are in the process of reforming.

5. Significant Accounting Policies

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

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

5.1 Financial Assets and Liabilities

5.1.1 Recognition and Initial Measurement

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

5.1.2 Classification of Financial Instruments

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

Day 1 profit or loss

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

5.1.2.1 Financial assets

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

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

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

5.1.2.1.1 Financial assets at amortized cost Loans and advances to customers

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

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

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

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

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

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

5.1.2.1.2 Financial assets fair value through profit or loss

Financial assets fair value through profit or loss comprises:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Financial investments - for trading

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

Investments in equity securities are classified as financial assets recognized through profit or loss and recognized at fair value. Refer Note 20.

Financial instruments designated as measured at fair value through profit or loss.

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

5.1.2.1.3 Financial assets measured at fair value through other comprehensive income.

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

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

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

5.1.2.2 Financial liabilities

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

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

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

1. Financial liabilities held for trading.
2. Financial liabilities designated at fair value through profit or loss.

- Financial liabilities at amortised cost (Note 5.1.2.2.2)

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

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

5.1.2.2.2 Financial liabilities at amortised cost

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

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

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

5.1.2.3 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2022.

5.1.2.4 De-recognition of financial assets and liabilities

De-recognition due to substantial modification of terms and conditions

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

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

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

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

De-recognition other than for substantial modification

Financial assets

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

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

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

Or

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

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

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

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

A transfer only qualifies for de-recognition if either:

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

Or

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

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

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

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

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

Financial liabilities

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

5.1.2.5 Impairment

Recognition of ECL

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

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

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

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

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

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

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

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

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

The calculation of ECLs

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

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

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

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

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

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

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

The mechanics of the ECL method are summarized below:

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

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

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

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

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

Calculations of ECL for individually significant loans

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Debt instruments measured at fair value through OCI

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

Purchased or originated credit impaired financial assets (POCI)

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

Forward looking information

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

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

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

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

5.1.3 Collateral valuation

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

5.1.3.1 Collateral repossessed.

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

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

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5.1.4 Write-offs

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

5.1.5 Forborne and modified loans

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

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

5.1.6 Foreclosed Properties

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

5.1.7 Offsetting Financial Instruments

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

5.2 Property and Equipment

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

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

Building	20 Years
Computer Equipment	05 Years
Office Equipment	05 Years
Motor Vehicles	05 Years
Furniture	06 Years
Iron Safes	10 Years
Partition and fittings	05 Years

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

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

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

5.3 Leases

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.
At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in SLFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

5.3.1 Bank acting as a lessee.

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

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

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

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

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

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

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

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

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

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

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

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

5.3.2 Bank acting as a lessor.

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

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

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

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

5.4 Intangible Assets

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

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

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

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

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

- Computer software 3 Years

5.5 Impairment of Non–financial Assets

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

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

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

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

5.6 Financial Guarantees

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

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

5.7 Retirement Benefit Obligation

5.7.1 Defined Benefit Pension Plan-Gratuity

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

5.7.2 Gratuity

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

An actuarial valuation is carried out at every year end to ascertain the full liability under the Fund. The valuation was carried out as at 31st December 2022 by Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary using the projected unit credit method.

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

Funding Arrangements: The Gratuity liability is not externally funded.

5.7.3 Defined Contribution Pension Plan

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

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

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

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

5.8 Provisions

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

5.9 Recognition of Income and Expenses

5.9.1 Interest Income and Expense

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

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

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

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

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

5.9.2 Fees and Commission Income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, loan service charges, inspection charge 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 straightline basis.

5.9.3 Net Gains/ (Losses) from Trading

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

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

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

5.10 Taxation

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

5.10.1 Current Tax

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

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

5.10.2 Deferred Tax

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

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

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

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

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

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

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

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

5.10.3 VAT on Financial Services

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

5.10.4 Withholding Tax (WHT) on Dividends

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

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

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

5.10.5 Social Security Contribution Levy (SSCL)

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

5.10.6 Crop Insurance Levy (CIL)

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

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

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

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

5.10.7 Surcharge Tax

As per the provisions of the Surcharge Tax Act No. 14 of 2022, if the aggregate of the taxable income of the holding company and all subsidiaries in a group of companies for the Year of Assessment 2020/21 exceed LKR.2,000 Mn, each company in the group of companies is liable to pay Surcharge Tax calculated at 25% on the table income.

5.10.8 IFRIC 23 - Uncertainty over income tax treatment

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

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

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

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed Bank the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Bank in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments.

The Bank determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Bank.

5.11 Dividends on Ordinary Shares

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

5.12 Earnings per Share (EPS)

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

5.13 SLFRS 15 – Revenue from Contracts with Customers

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

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

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

5.14 Statement of Cash Flow

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

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

5.15 Reserves

5.15.1 Statutory Reserve Fund

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

5.15.2 General Reserve Fund

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

5.15.3 Special Reserve Fund

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

6 Accounting Standards Issued but not yet Effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2023. Accordingly, the following new and amended standards are not expected to have a significant impact on the Bank's Financial Statements.

6.1. Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)

The amendment requires the requirements for classifying liabilities as current or noncurrent. The amendments explain what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of liability not impact its classification and disclosures.

NOTES TO THE FINANCIAL STATEMENTS

6.2. Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2)

Amendments to LKAS 1 and IFRS Practice Statement 2, provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by, Replacing the requirement for entities to disclose their "significant" accounting policies with requirement to disclose their "material" accounting policies. Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

6.3. Amendments to "Accounting policies, changes in accounting estimates and errors" (LKAS 8): Definition of Accounting Estimates.

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

6.4. Insurance Contracts (SLFRS 17)

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

7. Gross Income

Year ended 31 December	2022 Rs.	2021 Rs.
Interest income (Note 8.1)	**35,273,433,857**	23,545,299,165
Fee and commission income (Note 9)	**806,547,782**	935,136,855
Net trading gain/(loss) (Note 10)	**102,296,546**	(24,214,945)
Other operating income (Note 11)	**20,471,444**	36,547,883
Total Gross Income	**36,202,749,629**	24,492,768,957

8. Net Interest Income

8.1 Interest Income

Year ended 31 December	2022 Rs.	2021 Rs.
Placements with banks	**760,952,114**	364,966,827
Financial assets at amortised		
Loans and receivables from other customers	**25,287,684,763**	19,937,925,746
Debt & other instruments	**9,224,796,980**	3,242,406,591
Total interest income	**35,273,433,857**	23,545,299,165

8.2 Interest Expense

Year ended 31 December	2022 Rs.	2021 Rs.
Due to banks	**(2,149,689,728)**	(1,180,999,383)
Due to other customers	**(17,607,209,517)**	(8,483,808,364)
Interest expense on lease liabilities	**117,369,695**	(228,565,487)
Total interest expenses	**(19,639,529,550)**	(9,893,373,234)
Net interest income	**15,633,904,307**	13,651,925,931

9. Net Fee and Commission Income

Year ended 31 December	2022 Rs.	2021 Rs.
Fee and commission income	**806,547,782**	935,136,855
Fee and commission expenses	**(355,184,923)**	(312,112,052)
Net fee and commission income	**451,362,859**	623,024,803
Comprising		
Loans	**709,899,122**	834,390,141
Trade and remittances	**9,638,064**	7,927,757
Deposits	**(320,973,518)**	(274,099,141)
Others	**52,799,191**	54,806,046
Net fee and commission income	**451,362,859**	623,024,803

NOTES TO THE FINANCIAL STATEMENTS

10. Net Trading Gain/(Loss)

Year ended 31 December	2022 Rs.	2021 Rs.
Financial assets recognised through profit or loss - fair value change	**(67,860)**	42,980
Exchange (loss)/ gain	**97,979,726**	(34,467,765)
Dividend income	**4,384,680**	10,209,840
Total	**102,296,546**	(24,214,945)

11. Net Other Operating Income

Year ended 31 December	2022 Rs.	2021 Rs.
Gain/ (Loss) on disposal of property, plant and equipment	**93,147**	18,134,116
Gain/ (Loss) on disposal of intangible assets	-	-
Recovery of loans written off	**411,274**	441,823
Other income	**19,967,023**	17,971,945
Total	**20,471,444**	36,547,883

12. Impairment Charges

Year ended 31 December	2022 Rs.	2021 Rs.
Placement with banks (Note 19.1)	-	-
Financial assets at amortised cost - Loans and receivables from other customers (Note 21.2)	**(2,848,036,496)**	(3,259,719,557)
Financial assets measured at amortised cost - debt and other instruments (Note 22.3)	**(1,065,829)**	432,420
Undrawn credit commitments and financial guarantees (Note 40.1.1)	**(3,574,850)**	(1,265,710)
Other assets (Note 28.1)	-	3,776,985
Net impairment (charge) / reversal for loans and other losses	**(2,852,677,176)**	(3,256,775,862)

13. Personnel Expenses

Year ended 31 December	2022 Rs.	2021 Rs.
Salary and bonus	**5,596,751,248**	4,740,121,879
Contributions to EPF/ETF	**872,212,354**	732,569,872
Contributions to defined benefit plans	**620,181,014**	417,763,843
Others	**1,650,392,987**	1,401,814,289
Total	**8,739,537,602**	7,292,269,883

14. Other Expenses

Year ended 31 December	2022 Rs.	2021 Rs.
Directors' emoluments	4,248,060	3,510,000
Auditors' remunerations	2,285,841	2,400,000
Professional and legal expenses	21,347,210	13,199,075
Office administration and establishment expenses	1,396,364,812	900,940,590
Computerization expenses	436,221,334	186,225,340
Business tax expenses	1,636,420	3,521,405
Other commission paid	335,352	930,266
Deposit Insurance Premium	203,169,932	167,038,634
Crop insurance levy	13,551,052	9,716,275
Staff security deposits interest	5,814,102	2,978,933
Capital loss on pawning advance	(3,834)	7,668
Total	**2,084,970,281**	1,290,468,186

15. Income Tax Expense

15.1 Amounts Recognised in Profit or Loss

Year ended 31 December	2022 Rs.	2021 Rs.
Current Tax Expense		
Tax on current year's profits (Note 15.3)	1,301,405,280	752,050,328
Under provision in respect of previous years	16,570,076	68,605,453
	1,317,975,356	820,655,781
Deferred Tax Expense		
Reversal on temporary differences (Note 27.2)	(2,308,254,679)	(351,453,892)
	(2,308,254,679)	(351,453,892)
Total income tax expense recognised in profit or loss	(990,279,323)	469,201,889

15.2 Amounts Recognised in Other Comprehensive Income

Year ended 31 December	2022 Rs.	2021 Rs.
Deferred Tax Expense		
Reversal on temporary differences (Note 27.2)	46,874,831	(8,620,208)
Total income tax expense recognised in other comprehensive income	46,874,831	(8,620,208)

NOTES TO THE FINANCIAL STATEMENTS

15.3 Reconciliation of the accounting profit to income tax expense

Year ended 31 December	2022 Rs.	2021 Rs.
Profit before income tax expense	359,115,328	775,504,600
Exempt income		
Interest Income	(1,705,392,315)	(514,904,089)
Add : Disallowable expenses	6,902,036,608	5,772,134,980
Less : Allowable expenses	(733,790,790)	(2,905,148,199)
Taxable Income from Business	4,821,968,832	3,127,587,292
Tax liability for the First 6 months month ending June 2022	24% / 14%	24%
Tax @ 24%	578,110,098	750,620,950
Tax @ 14%	1,999	1,429,378
Tax liability for the Second 6 months month ending December 2022	30%/15%	-
Tax @ 30%	722,637,623	-
Tax @ 15%	655,560	-
Tax on current year's profits	1,301,405,280	752,050,328
Deferred tax reversal (Note 27.2)	(2,308,254,679)	(351,453,892)
Under provision in respect of previous years	16,570,076	68,605,453
Income tax expense	(990,279,323)	469,201,889
Effective current tax rate	-275.76%	60.50%

15.4 Reconciliation of effective tax rate

Year ended 31 December	2022		2021	
	%	Rs.	%	Rs.
Profit before income tax expense		359,115,328		775,504,600
Income tax for the period	27.00%	96,961,139	24.00%	186,121,104
Tax effect of expenses that are not deductible for tax purposes	518.93%	1,863,549,884	178.63%	1,385,312,395
Tax effect of expenses that are deductible for tax purposes	-55.50%	(199,307,377)	-89.91%	(697,235,568)
Exempt income	-128.22%	(460,455,925)	-15.94%	(123,576,981)
Tax on Dividend Income	0.18%	657,559	0.18%	1,429,378
Deferred tax reversal (Note 27.2)	-642.8%	(2,308,254,679)	-45.3%	(351,453,892)
(Over)/ under provision in respect of previous years	4.61%	16,570,076	8.85%	68,605,453
Total Income Tax Expense	-275.76%	(990,279,323)	60.50%	469,201,889

Except for the Dividend income receipts, current tax on profits from Banking and Leasing businesses has been computed at the rate of 24% for first half year and 30% for second half year of assesment, dividend income taxed at the rate of 14% & 15%. Apart from that, Interest received on Foreign currency accounts are exempted from Income Tax.

The Bank applied the revised rate of 24% and other amendments in line with the inland revenue amendments Act No.45 of 2022 to calculate the income tax and deferred tax assets/liabilities as at 31st December 2022. increased tax rate was applicable for a six month of the year of assesment. First six months of the year of assement commencing on April 1,2022,the rate was 24% and for second six months of the same year of assemment at the rate was 30%. Bank applied the revised rate of 30% to compute the deferred tax as at 31st December 2022.

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

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

16. EARNINGS PER SHARE

16.1 Basic Earnings per Share

Basic Earnings per Share has been calculated by dividing Profit after Tax attributable to Equity Holders of the Bank by the weighted average number of Ordinary Shares in issue (Both Voting and Non-Voting) during the year ended 31st December 2022 and 2021.

For the Year ended 31st December	2022	2021
Profit for the year attributable to ordinary equity holders of the Bank (Rs.)	1,349,394,652	306,302,711
Weighted average number of ordinary shares in issue (No.)	551,290,995	545,107,049
Basic earnings per ordinary share	2.45	0.56

16.2 Diluted Earnings per Share

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

17. Classification of Financial Assets and Financial Liabilities

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

As at 31st December 2022	Note	Financial assets measured at fair value through other profit or loss Rs.	Financial assets measured at amortised cost Rs.	Financial assets measured at fair value through other comprehensive income Rs.	Total Rs.
Financial Assets					
Cash and cash equivalent	18	-	2,889,883,677		2,889,883,677
Placements with banks	19	-	6,133,705,351	-	6,133,705,351
Equity instruments at fair value through profit or loss	20	120,280	-	-	120,280
Financial assets at amortised cost- Loans and receivables from other customers	21	-	198,008,145,155	-	198,008,145,155
Financial investments at amortised cost-Debt & other instruments	22	-	65,079,635,908	-	65,079,635,908
Equity Instruments at fair value through other comprehensive income	23	-	-	2,289,919	2,289,919
Other financial assets	28	-	6,018,325,952	-	6,018,325,952
Total financial assets		120,280	278,129,696,043	2,289,919	278,132,106,242

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2022	Note	Financial Liabilities measured at fair value through other profit or loss	Financial Liabilities measured at amortised cost Rs.	Financial Liabilities measured at fair value through other comprehensive income Rs.	Total Rs.
Financial Liabilities					
Due to banks	29	-	47,470,707,056	-	47,470,707,056
Due to other customers	30	-	210,301,323,468	-	210,301,323,468
Debt issued and other borrowed funds	31	-	-	-	-
Other liabilities	33	-	6,426,430,198	-	6,426,430,198
Total financial liabilities		-	264,198,460,722	-	264,198,460,722

As at 31 December 2021	Note	Financial assets measured at fair value through other profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Financial Assets					
Cash and cash equivalent	18	-	1,486,878,969	-	1,486,878,969
Placements with banks	19	-	6,596,072,932	-	6,596,072,932
Financial assets held-for-trading/ Equity Instruments at fair value through profit or loss	20	188,140	-	-	188,140
Financial assets at amortised cost- Loans and receivables from other customers	21	-	175,229,666,656	-	175,229,666,656
Financial assets at amortised cost- Debt & other instruments	22	-	54,856,210,318	-	54,856,210,318
Equity Instruments at fair value through other comprehensive income	23	-	-	2,289,919	2,289,919
Other financial assets	28	-	3,721,641,936	-	3,721,641,936
Total financial assets		188,140	241,890,470,831	2,289,919	241,892,948,830

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

18. Cash and Cash Equivalents

As at 31 December	2022 Rs.	2021 Rs.
Cash in hand	**919,970,763**	839,013,334
Other bank balances	**1,969,912,914**	647,865,655
	2,889,883,677	1,486,878,989

19. Placements with Banks

As at 31 December	2022 Rs.	2021 Rs.
Money market placements	**6,133,705,351**	6,596,072,932
Less : Expected credit loss allowance (Note 19.1)	-	-
Total placements with banks	**6,133,705,351**	6,596,072,932

19.1 Movement in expected credit loss allowance

As at 31 December	2022 Rs.	2021 Rs.
Stage 1		
Balance as at 01 January	-	-
During the year charge/ (reversal)	-	-
Balance as at 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS

20. Equity Instruments at Fair Value Through Profit or Loss

	2022			2021		
	No. of Shares	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
Quoted Equities						
People's Merchant Bank PLC	**600**	**5,160**	**2,280**	600	5,160	4,140
Seylan Development PLC	**10,000**	**140,000**	**118,000**	10,000	140,000	184,000
	10,600	**145,160**	**120,280**	10,600	145,160	188,140

21. Financial Assets at Amortised Cost - Loans and Receivables From Other Customers

As at 31 December	2022 Rs.	2021 Rs.
Gross loans and receivables (Note 21.1)	**215,372,501,881**	189,039,666,420
(Less): Staff loan fair value adjustment	**(1,576,948,950)**	(870,864,778)
	213,795,552,931	188,168,801,643
Less: Expected Credit Loss Allowance - Individual Impairment (Note 21.2.1)	**(1,362,761,334)**	(1,581,171,535)
Less: Expected Credit Loss Allowance - Collective Impairment (Note 21.2.2)	**(14,424,646,441)**	(11,357,963,453)
Net loans and receivables from other customers	**198,008,145,155**	175,229,666,656

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

As at 31 December	2022 Rs.	2021 Rs.
21.1.1 By product		
Pawning	**42,234,452,674**	20,173,958,657
Staff loans	**5,501,098,905**	4,614,968,345
Leasing	**1,397522,296**	969,406,200
Short-term	**13,716,623,362**	9,989,450,293
Long-term	**152,522,804,644**	153,291,882,926
Gross total	**215,372,501,881**	189,039,666,420
21.1.2 By currency		
Sri Lankan rupee	**215,372,501,881**	189,039,666,420
Gross total	**215,372,501,881**	189,039,666,420
21.1.3 By industry		
Agriculture and fishing	**77,425,986,329**	51,314,868,161
Manufacturing	**30,674,769,876**	28,606,048,280
Leasing	**1,382,157,636**	969,406,200
Transport	**76,097,009**	77,854,618
Construction /housing	**19,645,882,183**	24,484,171,958
Traders	**30,799,835,516**	31,526,204,748
Others (consumptions/against deposit/staff/tourism)	**55,367,773,330**	52,062,112,455
Gross total	**215,372,501,881**	189,039,666,420

21.2 Expected Credit Loss Allowance

	2022 Rs.	2021 Rs.
21.2.1 Individual Impairment		
Balance as at 01 January	1,581,171,535	2,562,109,132
Net charge to profit or loss	(218,410,201)	(980,937,597)
Balance as at 31 December	1,362,761,334	1,581,171,535
21.2.2 Collective Impairment		
Balance as at 01 January	11,357,963,453	7,116,566,892
Net charge to profit or loss	3,066,446,697	4,240,657,154
Other movements / Write off	236,292	739,407
Balance as at 31 December	14,424,646,441	11,357,963,453

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

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

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

* before zero rated loan and staff loan adjustments

22. Financial Assets at Amortised Cost-Debt and Other Instruments

As at 31 December	2022 Rs.	2021 Rs.
Quoted debentures (Note 22.1)	**623,946,610**	623,946,610
Government debt securities-treasury bills & bonds	**11,487,849,406**	4,813,547,891
Investment in Fixed Deposits (Note 22.2)	**52,970,666,614**	49,420,476,709
Total financial assets at amortised cost	**65,082,462,630**	54,857,971,210
Less: Expected Credit Loss Allowance (Note 22.3)	**(2,826,721)**	(1,760,892)
Net financial assets at amortised cost	**65,079,635,908**	54,856,210,318

22.1 Quoted Debentures

As at 31 December	2022			2021		
	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.	No of Debentures	Cost of Investment Rs.	Amortized Cost Rs.
Commercial Bank of Ceylon PLC	-	-	-	-	-	-
DFCC	**5,000,000**	**500,000,000**	**508,630,137**	5,000,000	500,000,000	508,630,137
Seylan Bank	**1,077,200**	**107,720,000**	**115,316,473**	1,077,200	107,720,000	115,316,473
Total	**6,077,200**	**607,720,000**	**623,946,610**	6,077,200	607,720,000	623,946,610

22.2 Investment in Fixed Deposits

As at 31 December	2022 Rs.	2021 Rs.
Fixed deposits less than three months	21,726,025,221	35,579,154,747
Fixed deposits more than three months	31,244,641,393	13,841,321,963
Total	**52,970,666,614**	49,420,476,709

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

As at 31 December	2022 Rs.	2021 Rs.
22.2.1.1 By Currency		
Sri Lankan Rupee	28,069,212,094	38,621,426,282
United States Dollar	24,901,454,519	10,799,050,427
Total Financial assets measured at amortised cost	**52,970,666,614**	49,420,476,709
22.2.1.2 By Collateralisation		
Pledged as collateral	10,051,950,266	2,799,724,148
Unencumbered	42,918,716,348	46,620,752,561
Total Financial assets measured at amortised cost	**52,970,666,614**	49,420,476,709
22.2.1.3 Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments		
Balance as at 1 January	5,435,733,610	4,794,468,336
Net Acquisitions and Maturities during the Year	6,693,646,250	643,026,165
Less: Expected Credit Loss Allowance (Note 22.3)	(2,826,721)	(1,760,892)
Balance as at 31 December	**12,126,553,139**	5,435,733,609

22.3 Expected Credit Loss Allowance

As at 31 December	2022 Rs.	2021 Rs.
Balance as at 1st January	1,760,892	2,193,312
Net Charge (Reversal) for the year	1,065,829	(432,420)
Balance as at 31 December	**2,826,721**	1,760,892

23. Equity Instruments at Fair Value Through Other Comprehensive Income

As at 31st December	2022 Rs.	2021 Rs.
Unquoted Equity Securities (Note 23.1)	2,289,919	2,289,919
	2,289,919	2,289,919

NOTES TO THE FINANCIAL STATEMENTS

23.1 Unquoted Equity Securities

As at 31st December	2022			2021		
	No. of Shares/ Percentage	Cost of Investment Rs.	Market Value Rs.	No. of Shares	Cost of Investment Rs.	Market Value Rs.
CRIB	1,821	2,289,919	2,289,919	1,821	2,289,919	2,289,919
Total	1,821	2,289,919	2,289,919	1,821	2,289,919	2,289,919

24. Property, Plant and Equipment

	Land and Buildings Rs.	Leasehold properties Rs.	Computer Hardware Rs.
Cost			
Opening balance as at 01 January 2022	702,910,953		765,947,389
Additions	8,810,285		59,069,158
Disposals	(3,802,742)		(17,433,335)
Write off	-		-
Transfers during the Year	-		-
Reclassification Adjustments			2,000
Closing balance as at 31 December 2022	707,918,496	-	807,585,212
(Less): Accumulated depreciation			
Opening balance as at 01 January 2022	209,726,962		622,424,460
Charge for the year	22,625,057		56,087,298
Disposals	(2,083,558)		(17,433,173)
Written off	-		-
Transfers during the Year	-		-
Reclassification Adjustments	(8,821)		(664,531)
Closing balance as at 31 December 2022	230,259,640	-	660,414,054
Net book value as at 31 December 2022	477,658,856	-	147,171,159

2022					
Office, Equipment, Furniture and Fittings Rs.	Motor Vehicles Rs.	Partition & Fittings Rs.	Work-in Progress Rs.	Other Rs.	Total Rs.
1,356,459,136	387,762,031	423,704,723	6,299,469	747,424	3,643,831,125
64,544,426	-	74,827,163	624,879		207,875,911
(6,698,473)	(635,196)	(1,143,261)			(29,713,007)
-	-	-	-		-
89,524	-	-	-	(89,524)	-
(90,204)	128,080	(346,000)	-		(306,124)
1,414,304,409	387,254,915	497,042,625	6,924,347	657,900	3,821,687,905
1,160,933,630	386,599,729	335,581,260	-		2,715,266,041
84,791,446	3,445,868	43,806,062	-		210,755,730
(6,697,976)	(629,591)	(1,453,990)	-		(28,298,288)
-	-	-	-		-
-	-	-			-
(1,771,677)	(252,800)	44,999	-		(2,652,830)
1,237,255,423	389,163,206	377,978,331	-	-	2,895,070,653
177,048,987	(1,908,291)	119,064,294	6,924,347	657,900	926,617,253

NOTES TO THE FINANCIAL STATEMENTS

	Land and Buildings Rs.	Leasehold properties Rs.	Computer Hardware Rs.
Cost			
Opening balance as at 01 January 2021	635,090,898	-	710,527,368
Additions	65,792,724	-	68,789,187
Disposals	-	-	(13,464,028)
Written off	-	-	-
Transfers during the Year	-	-	-
Reclassification Adjustments	2,027,332	-	94,862
Closing balance as at 31 December 2021	702,910,953	-	765,947,389
(Less): Accumulated depreciation			
Opening balance as at 01 January 2021	184,965,594	-	574,829,342
Charge for the year	24,258,278	-	60,926,671
Disposals	-	-	(13,424,381)
Written off	-	-	-
Transfers during the Year	-	-	-
Reclassification Adjustments	503,091	-	93,287
Closing balance as at 31 December 2021	209,726,962	-	622,424,920
Net book value as at 31 December 2021	493,183,991	-	143,522,470

24.1 Fully Depreciated Property, Plant and Equipment

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

As at 31 December	2022 Rs.	2021 Rs.
Asset Class		
Building	**3,562,414**	20,396,463
Computer, Hardware	**394,666,351**	470,021,543
Office,Equipment,Furniture and Fittings	**619,998,427**	774,199,583
Motor Vehicles	**366,272,260**	357,416,907
Partition & Fittings	**174,463,538**	191,097,754
Software	**112,232,689**	96,208,779
	1,671,195,678	1,909,341,030

24.2 Title restrictions on property, plant and equipment

There were no title restrictions on property, plant and equipment of the Bank as at the reporting date.

24.3 Property, plant and equipment pledged as security for liabilities

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

2021					
Office, Equipment, Furniture and Fittings Rs.	Motor Vehicles Rs.	Work-in Progress Rs.	Partition & Fittings Rs.	Other Rs.	Total Rs.
1,340,256,705	409,400,481	5,156,066	393,626,535	819,424	3,494,879,478
33,912,730	-	711,727	33,486,823		202,693,190
(16,676,877)	(21,646,441)		(715,537)		(52,702,882)
-	-	-	-		-
(766,424)	-	-	-	(72,000)	(838,424)
(66,999)	7,990	431,675	(2,695,098)		(200,238)
1,356,459,136	387,762,031	6,299,468	423,704,723	747,424	3,643,831,124
1,066,545,951	404,587,270	-	293,412,666	-	2,524,340,823
111,692,802	3,611,667	-	43,130,616	-	243,620,034
(16,026,373)	(23,545,018)	-	(579,847)	-	(53,575,618)
-	-	-	-	-	-
(1,134,048)	1,937,820	-	73,676	-	877,448
(148,516)	7,990	-	(455,852)	-	(0)
1,160,929,816	386,599,729	-	335,581,260		2,715,262,686
195,529,320	1,162,302	6,299,468	88,123,463	747,424	928,568,438

NOTES TO THE FINANCIAL STATEMENTS

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

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

24.5 Temporally idle property, plant and equipment

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

24.6 Freehold Lands and Buildings

The details of freehold land and buildings held by the Bank as at 31st December 2022 are as follows:

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land Rs	Cost of Building Rs	Total Value Rs	Accumulated Depreciation Rs	Written down value Rs
H/O - No 933, Kandy Rd, Wedamulla, Kelaniya	50.4	5,375	March 5, 2012	142,244,280	139,378,152	281,622,432	63,995,577	217,626,855
Central Province								
Matale - No 62, Main Street, Matale	4.8	2,290	December 26, 2014	-	11,915,631	11,915,631	4,774,414	7,141,217
Dambulla - No 734, Anuradhapura Road, Dambulla	8.2	2,210	December 18, 2003	565,000	2,286,908	2,851,908	2,286,907	565,001
Wilgamuwa -Hettipola, Wilgamuwa	38.0	1,740	August 24, 2009	-	7,581,277	7,581,277	5,660,205	1,921,073
Agarapathana - No 158, Hoolbrook, Agarapatana	10.8	1,598	August 17, 2012		1,260,000	1,260,000	719,999	540,001
Naula- 26, Dambulla Road,Naula	20.0	1,640	February 25, 1998	2,471,252	8,600,539	11,071,791	3,871,162	7,200,629
Laggala - New Town, Laggala	40.0	3,261		-	23,565,250	23,565,250	4,228,832	19,336,417
North Central Province								
Mihinthale - Trincomalee Road, Mihinthale	20.0	6,309	30-Dec-05	0	8,859,427	8,859,427	7,522,342.67	1,337,084
Medawachchiya - Mannar Road, Madawachchiya	34.0	4,371	March 19, 2013	-	16,192,223	16,192,223	8,096,111.50	8,096,111
Galenbinduruwewa - Pola Road, Galenbiduruwewa	70.0	1,687	March 14, 2013	-	5,820,073	5,820,073	2,788,710.91	3,031,362
Medirigiriya - Main Street, Madirigiriya	40.0	-	December 31, 2007	-	9,643,650	9,643,650	7,241,381.08	2,402,269
Siripura - New Town, Siripura	30.0	4,973	February 24, 2016	-	22,291,625	22,291,625	7,637,622.47	14,654,003
Thirappane - Kandy Road, Thirappane	65.4	8,030	December 8, 2016	379,869.25	46,150,602	46,530,472	9,965,269.98	36,565,202
No.343,Mosque Road Stage 01,Anuradhapura					125,000	125,000	25,000.00	100,000
North Western Province								
Mawathagama - Kandy Road, Mawathagama	21.5	-	March 3, 2016	10,801,311		10,801,311	-	10,801,311
P/O Kurunegala - No 155, Negombo Rd, Kurunegala	14.0	8,484	December 29, 2004	-	18,227,912	18,227,912	11,777,882	6,450,030
Polpithigama - Kurunegala Road,Polpitigama	20.0	2,794	December 30, 2014	-	16,782,785	16,782,785	6,525,330	10,257,455
Mampuri - Kalpitiya Road, Mampuri	80.0	15,181	December 30, 2014	-	25,188,128	25,188,128	9,927,598	15,260,530

Name of Premises and address	Extent (Perches)	Building (Square feet)	Date of valuation	Cost of Land Rs	Cost of Building Rs	Total Value Rs	Accumulated Depreciation Rs	Written down value Rs
Palakuda - Kalpiti Road, Thalawila	20.3	2,244	March 25, 2003	-	5,792,157	5,792,157	3,786,171	2,005,987
Nattandiya - Marawila Road, Naththandiya	15.7	1,200	February 11, 2003	-	36,799,082	36,799,082	7,666,964	29,132,118
Wariyapola - No 29/4, Adhikari Mawatha,Wariyapola.	10.0	6,208	November 12, 2013	-	35,609,963	35,609,963	10,956,316	24,653,647
Southern Province								
Kekanadura - Weherahena Rd, Kekanadura	12.0	1,704	May 10, 2004	1,418,000	1,194,535	2,612,535	1,015,082	1,597,453
Akmeemana - Ganegoda, Akmeemana	6.5	1,614	October 2, 1993	-	600,000	600,000	599,999	1
Galle Branch - No 301, Matara Rd, Magalle, Galle	30.0	1,224	October 9, 1999	-	8,894,553	8,894,553	3,790,392	5,104,161
Katuwana - Udа Gomadiya Road, Katuwana	39.1	3,150	March 22, 2001	1,320,000	7,406,956	8,726,956	6,294,223	2,432,735
Tangalle - 81, Beliatta Road, Tangalle	16.0	1,200	May 5, 2005	1,620,667	1,675,534	3,296,201	1,675,152	1,621,049
Uragasmanhandiya - Kosgoda Road, Uragasmanhandiya	26.0	1,940	April 10, 2012	-	13,354,618	13,354,618	6,494,369	6,860,249
Ambalantota - 139 Hambantota Road, Ambalantota	25.0	2,568	August 30, 2004	2,000,000	3,070,100	5,070,100	2,608,884	2,461,216
Agunakolapelessa,Ranna Road, Agunakolapelessa	12.0	2,371	August 27, 2001	-	3,470,348	3,470,348	2,526,266	944,082
D/O Galle - No 301, Matara rd, Magalle, Galle	30.0	2,000	October 8, 1999	1,750,000	4,884,716	6,634,716	3,873,606	2,761,108
No.01,Gaiwala Road,Hambantota	237.0	16,316			33,082,199	33,082,199	16,993,513	16,088,687
Thalgaswala			26-May-22	3,004,320		3,004,320		3,004,320
Uva Province								
Girandurukotte - Development Centre Girandurukotte	10.1	1,661	November 30, 2011		3,227,674.2	3,227,674	1,846,918	1,380,756
Monaragal D/O-Moneragala Road, Buttala.	34.0	1,706	October 22, 1999	3,162,263		3,162,263	2,819,890	342,373
Bandarawela Lease hold Premises	7.7		February 18, 2013	1,150,000	-	1,150,000	-	1,150,000
Sabaragamuwa Province						-		-
Balangoda - No17,Rest House Approach Road, Balangoda	20.0	-	February 18, 2013	6,679,574		6,679,574	1,584	6,677,990
Eastern Province								
Swiss Village, Batticaloa.				173,370		173,370		173,370
Clock tower junction, front of bus stand, Ampara				468,550		468,550		468,550
Eastern Province - Dehiattakandiya					5,778,419	5,778,419	267,549	5,510,870
Total				179,208,456	528,710,039	707,918,496	230,261,223	477,657,272

NOTES TO THE FINANCIAL STATEMENTS

25. Intangible Assets

	2022 Rs.	2021 Rs.
Computer Software		
Cost		
Balance as at 1st January	366,809,102	277,845,780
Additions	1,987,025	123,380,926
Disposals	-	(34,417,603)
Balance as at 31st December	368,796,128	366,809,102
Accumulated Amortization		
Balance as at 1st January	253,120,322	256,573,080
Charge for the year	46,808,061	30,772,231
Disposals	-	(34,224,989)
Balance as at 31st December	299,928,384	253,120,322
Net book value	68,867,744	113,688,780

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

26. Leases

Leases as lessee

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

26.1 Right of Use Assets

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

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

26.2 Lease Liabilities

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

	2021		
	Building Rs.	Motor Vehicles Rs.	Total Rs.
Balance as at 1 January 2021	692,975,425	19,465,192	712,440,617
Opening balance modifications - Buildings	-	-	-
Additions	317,494,655	-	317,494,655
Accretion of Interest	61,733,479	753,433	62,486,912
Payments	(309,388,344)	(18,861,770)	(328,250,114)
Balance as at 31 December 2021	762,815,214	1,356,855	764,172,070

26.2.1 Maturity Analysis of Lease Liability - Contractual Undiscounted Cashflows

As at 31 December	2022 Rs.	2021 Rs.
Less than one years	48,815,297	270,606,187
One to five years	763,840,507	564,054,752
	812,655,804	834,660,939

NOTES TO THE FINANCIAL STATEMENTS

26.3 Amounts Recognised in Profit or Loss

As at 31 December	2022 Rs.	2021 Rs.
Interest on lease liability	49,991,183	62,486,912
Amortisation charge for the year	277,056,739	246,595,743
	327,047,922	309,082,654

26.4 Amounts Recognised in Statement of Cash Flows

As at 31 December	2022 Rs.	2021 Rs.
Lease rental payments	327,195,209	328,250,114
	327,195,209	328,250,114

27. Deferred Tax Assets/Liabilities

As at 31st December	2022 Rs.	2021 Rs.
Deferred tax asset	(3,664,188,331)	(1,464,843,346)
Deferred tax liability	139,013,413	201,048,274
Net deferred tax (asset)/ liability	(3,525,174,918)	(1,263,795,071)

27.1 Amounts recognized in the Income Statement

As at 31 December	2022 Rs.	2021 Rs.
Recognized in profit or loss	(2,308,254,679)	(351,453,892)
Recognized in other comprehensive income	46,874,831	(8,620,208)

27.2 Movement in deferred tax balances

2022	Net Balance as at 01st January 2022	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2022	Deferred Tax Asset	Deferred Tax Liability
Property, Plant and Equipment	91,465,510	8,196,278	-	99,661,788	-	99,661,788
Leases	109,582,764	(70,231,139)	-	39,351,625	-	39,351,625
Allowance for loan losses	(697,722,669)	(2,067,359,053)	-	(2,765,081,722)	(2,765,081,722)	-
Employee Benefits	(731,151,537)	(243,197,635)	46,874,831	(927,474,341)	(927,474,341)	-
Operating Lease	(35,969,138)	64,336,869	-	28,367,732	28,367,732	-
	(1,263,795,069)	(2,308,254,679)	46,874,831	(3,525,174,918)	(3,664,188,331)	139,013,413

2021	Net Balance as at 01st January 2021	Recognized in profit or loss	Recognized in OCI	Net Balance at 31st December 2021	Deferred Tax Asset	Deferred Tax Liability
Property, Plant and Equipment	121,487,447	(30,021,937)	-	91,465,510	-	91,465,510
Leases	104,950,300	4,632,464	-	109,582,764	-	109,582,764
Allowance for loan losses	(440,421,507)	(257,301,162)	-	(697,722,669)	(697,722,669)	-
Employee Benefits	(667,889,910)	(54,641,419)	(8,620,208)	(731,151,537)	(731,151,537)	-
Operating Lease	(21,847,299)	(14,121,838)	-	(35,969,138)	(35,969,138)	-
	(903,720,969)	(351,453,892)	(8,620,208)	(1,263,795,069)	(1,464,843,344)	201,048,274

28. Other Assets

As at 31st December	2022 Rs.	2021 Rs.
Cost		
Financial Assets		
Receivables	**5,277,754,780**	3,559,214,197
Deposits and Advances	**18,116,724**	34,738,696
Sundry Debtors	**138,577,994**	61,277
Others	**583,876,453**	127,627,766
	6,018,325,952	3,721,641,936
Non Financial Assets		
Prepayment	**125,158,025**	76,407,532
Others	**1,896,047,149**	1,105,926,405
Tax Receivables	**3,084,424**	3,084,424
	2,024,289,598	1,185,418,361
Total other assets	**8,042,615,550**	4,907,060,297

29. Due to Banks

As at 31 December	2022 Rs.	2021 Rs.
Borrowings	**31,220,478,612**	15,726,229,460
Leasing (Note 29.1)	**96,000**	96,000
Refinance	**16,250,132,445**	13,774,611,083
Total due to banks	**47,470,707,056**	29,500,936,543

29.1 Maturity of the leasing

As at 31st December	2022 Rs.	2021 Rs.
Not later than 1 year	**96,000**	96,000
	96,000	96,000
Less - Interest in suspense	-	-
Total	**96,000**	96,000

NOTES TO THE FINANCIAL STATEMENTS

30. Financial Liabilities at Amortised Cost - Due to Other Customers

As at 31 December	2022 Rs.	2021 Rs.
Due to other customers	210,301,323,468	187,752,465,256
Total financial liabilities at amortised cost - due to other customers	210,301,323,468	187,752,465,256

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

As at 31 December	2022 Rs.	2021 Rs.
30.1.1 By product		
Savings deposits	40,472,860,914	46,993,998,454
Long term savings	25,379,586,421	25,165,494,768
Fixed deposits	144,448,876,133	115,592,972,034
Total financial liabilities at amortised cost	210,301,323,468	187,752,465,256
30.1.2 By currency		
Sri Lankan rupee	210,301,323,468	187,752,465,256
Total financial liabilities at amortised cost	210,301,323,468	187,752,465,256
30.1.3 By maturity		
Due within one year	153,700,366,310	127,934,846,256
Due after one year	56,600,957,158	59,817,618,999
Total financial liabilities at amortised cost	210,301,323,468	187,752,465,256

31. Debt Securities Issued

As at 31 December	2022 Rs.	2021 Rs.
Redeemable debentures (Note 31.1)	-	2,000,000,000
Total debt securities issued	-	2,000,000,000

31.1 Redeemable debentures

	2022 Rs.	2021 Rs.
Opening balance as at 01 January	2,000,000,000	2,000,000,000
Debenture Redeemed	(2,000,000,000)	-
Interest Payable	76,176,663	311,500,000
Interest Paid	(76,176,663)	(311,500,000)
Closing balance as at 31 December	-	2,000,000,000

Details of debenture issued

	Note	No. of Debentures	Face Value	Amortised Cost	
				2022	2021
			Rs.	**Rs.**	Rs.
Debentures issued in 2017	31.1.1	20,000,000	2,000,000,000	**2,000,000,000**	2,000,000,000
Total debentures issued by the Bank		20,000,000	2,000,000,000	**2,000,000,000**	2,000,000,000

31.1.1 Debentures issued in 2017

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

Type	No of debentures	Face value (Rs.)	Amortized cost 2021 (Rs.)	Amortized cost 2021 (Rs.)	Allotment Date	Maturity Date	Rate of the interest
A	3,000,000	300,000,000	300,000,000	300,000,000	2017/03/31	2022/03/31	Fixed - 16.00% per annum payable annually
B	17,000,000	1,700,000,000	1,700,000,000	1,700,000,000	2017/03/31	2022/03/31	Fixed - 15.5% per annum payable bi-annually
	20,000,000	2,000,000,000	2,000,000,000	2,000,000,000			

31.2 Debentures due

	2022		2021	
	Face Value	**Amortised Cost**	Face Value	Amortised Cost
	Rs.	**Rs.**	Rs.	Rs.
Due within one year	**2,000,000,000**	**2,000,000,000**	2,000,000,000	2,000,000,000
Due after one year	**-**	**-**	-	-
	2,000,000,000	**2,000,000,000**	2,000,000,000	2,000,000,000

32. Current Tax Liabilities

	2022	2021
	Rs.	Rs.
Balance as at 1st January	**503,021,886**	378,203,555
Current tax based on profit for the year (Note 15)	**1,301,405,280**	752,050,328
Under provision in respect of previous years (Note 15)	**16,570,076**	68,605,453
Surcharge tax	**800,598,848**	-
Payment of tax	**(1,609,671,944)**	(695,837,450)
Balance as at 31 December	**1,011,924,146**	503,021,886

NOTES TO THE FINANCIAL STATEMENTS

33. Other Liabilities

As at 31 December	2022 Rs.	2021 Rs.
Financial Liabilities		
Sundry creditors	1,948,511,439	593,559,411
Other payables	3,663,600,338	4,177,558,407
Inter bank transaction in transit	1,662,616	11,434
Operating Lease Liability (Note 26.2)	812,655,805	764,172,070
	6,426,430,198	5,535,301,322
Non Financial Liabilities		
Other payables	860,174,209	2,175,135,031
Impairment provision for expected credit losses - credit related commitment and contingencies	6,882,856	3,308,006
	867,057,065	2,178,443,036
Total	7,293,487,262	7,713,744,358

34. Retirement Benefit Obligation

As at 31 December	2022 Rs.	2021 Rs.
Retirement Benefit Obligation (Note 34.1)	3,091,581,136	3,046,464,739
	3,091,581,136	3,046,464,739

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

	2022 Rs.	2021 Rs.
Opening balance as at 01 January	3,046,464,739	2,782,874,624
Provision made during the year (Note 34.2)	567,113,577	379,779,626
Payable for resigned employees	(299,493,340)	(17,177,614)
Net Actuarial (Gain)/Loss on obligation (Note 34.3)	(156,249,438)	35,917,534
	3,157,835,538	3,181,394,170
Benefits paid by the Bank	(66,254,402)	(134,929,431)
Balance as at 31 December	3,091,581,136	3,046,464,739

34.2 Amount Recognised in Statement of Profit or Loss

As at 31st December	2022 Rs.	2021 Rs.
Current Service cost	216,770,132	162,715,405
Interest Cost	350,343,445	217,064,221
Total amount recognised in Statement of Profit or Loss	567,113,577	379,779,626

34.3 Amount Recognised in Statement of Other Comprehensive Income

As at 31 December	2022 Rs.	2021 Rs.
Net Actuarial (Gain)/Loss on obligation	(156,249,438)	35,917,534
Total amount recognised in Other Comprehensive Income	**(156,249,438)**	35,917,534

34.4 An actuarial valuation of the gratuity fund was carried out as at 31st December 2022 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	2022	2021
Discount rate as at 31st December	**18.00%**	11.50%
Future salary increment rate	**2023, 2024, 2026, 2027 & 2029 - 8%,2025 & 2028 - 20%**	2022 - 21% , 2023, 2024, 2026, 2027 & 2029 - 8%,2025 & 2028 - 20%
Mortality	**A1967/70 Mortality Table**	A1967/70 Mortality Table
Retirement age	**60 Years**	60 Years

34.5 Sensitivity of Assumptions Used in the Actuarial Valuation

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

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

		2022		2021	
Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Sensitivity Effect on Income Statement Increase / (Reduction) in results for the year Rs.	Present value of Defined Benefit Obligation Increase / (Decrease) in the Liability Rs.	Sensitivity Effect on Income Statement Increase / (Reduction) in results for the year Rs.	Present value of Defined Benefit Obligation Increase / (Decrease) in the Liability Rs.
+1%	-	**187,672,691**	**(187,672,691)**	224,678,599	(224,678,599)
-1%	-	**(212,584,985)**	**212,584,985**	(259,968,345)	259,968,345
-	+1%	**(218,242,691)**	**218,242,691**	(259,217,411)	259,217,411
-	-1%	**195,388,622**	**(195,388,622)**	227,994,528	(227,994,528)

NOTES TO THE FINANCIAL STATEMENTS

35. Stated Capital

	2022 Rs.	2021 Rs.
Ordinary shares		
Balance as at 1st January	8,047,229,930	8,047,229,930
Issue of shares	174,634,635	-
Balance as at 31st December	8,221,864,566	8,047,229,930

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

36. Statutory Reserve Fund

	2022 Rs.	2021 Rs.
Balance as at 1st January	777,778,133	762,462,998
Transfer during the period	67,469,733	15,315,136
Balance as at 31st December	845,247,866	777,778,133

37. Other Reserves

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

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

38. Related Party Disclosures

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 -" Related Party Disclosures" i.e. significant investors, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

38.1 Key Management Personnel of the Bank

As per the Sri Lanka Accounting Standard -LKAS 24 - "Related Party Disclosures", the KMPs includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. KMPs include the members of the Board of Directors of the Bank, the Chief Executive Officer, Deputy General Managers, Senior Assistant General Managers, Regional General Managers, Compliance Officer, Chief Internal Auditor and Board Secretary.

38.1.1 Key Management Personnel Compensation

Key management personnel compensation comprised the following;

As at 31 December	2022 Rs.	2021 Rs.
Short term employment benefits	**160,829,395**	138,863,934
Post employment benefits	-	-
	160,829,395	138,863,934

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

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

As at 31 December	2022 Rs.	2021 Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	**65,671,853**	69,063,712
	65,671,853	69,063,712
Liabilities		
Deposits	**139,035,622**	113,343,587
	139,035,622	113,343,587
Items in the Statement of Profit or Loss		
Interest income	**506,851**	3,849,843
Interest expenses	**8,423,376**	4,494,112
	8,930,227	8,343,955

NOTES TO THE FINANCIAL STATEMENTS

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

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

Type of the Loan	Other Terms and Conditions	Balance as at 31.12.2021	Security Details 31.12.2021	
			Type	Value
Staff Housing Loans	Terms are similar to comparable transactions with an unrelated parties with the exception of staff loans which are under approved schemes uniformly applicable to all or specific categories of of employees.	22,525,008	Land	206,650,000
Staff Vehicle Loans		32,476,614	Motor vehicle	98,208,912
Cash Backed Loans		3,703,273	Fixed Deposit	14,255,943
Consumptions and Other Loans		10,358,817		
		69,063,712		319,114,854

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

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

In accordance with Sri Lanka Accounting Standard LKAS 24 on "Related Party Disclosures", the Bank has exempted from the disclosure requirements under paragraph 18 on transactions with Government of Sri Lanka, significant investor and its related entities.

A number of entities in which the Government of Sri Lanka has an interest, have significant interests in the Bank.

The Bank has disclosed individually significant transactions and other transactions collectively, but not individually with significant investor and related entities under LKAS 24. The Bank has entered into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the Statement of Financial Position are as follows:

As at 31 December	2022 Rs.	2021 Rs.
Items in the Statement of Financial Position		
Assets		
Loans and receivables	**205,953,019**	184,086,623
	205,953,019	184,086,623
Liabilities		
Deposits	**13,335,228,331**	13,318,465,018
	13,335,228,331	13,318,465,018
Items in the Statement of Profit or Loss		
Interest income	**422,182**	10,505,819
Interest expenses	**1,588,821,341**	662,977,749
	1,589,243,523	673,483,567

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

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

38.3 Pricing Policy with Related Parties

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

NOTES TO THE FINANCIAL STATEMENTS

39. Assets Pledged as Security

The total financial assets recognized in the statement of financial position that had been pledged as collateral for liabilities as at 31 December 2022 and 2021 is shown in the following table:

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

2021	Type of Facility	Amount of Facility Rs. Mn	Nature of Security	Value of Security Rs. Mn	Balance as at 31 December 2021 Rs. Mn
1	Over Draft - BOC	1,326	FD 80912939	685	-
			FD 74353124	281	
			FD 82300125	242	
			FD 74817306	343	
			FD 74588793	320	
			FD 74619066	317	
2	Over Draft - PB	200	FD- 014-60-01-00015762-6	502	-

40 Contingent Liabilities and Commitments

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

These contingencies and commitments are quantifies below:

As at 31 December	2022 Rs.	2021 Rs.
Guarantees and performance bonds	180,046,018	177,766,966
Other contingent items	207,216,884	51,429,192
Less : Impairment for expected credit losses-Guarantees	(6,882,856)	(3,308,006)
Total	380,380,046	225,888,152

40.1 Analysis of Commitment and Contingency Exposure to Credit Risk

As at 31 December 2022	Stage 1 Rs.	Total Rs.
Guarantees and performance bonds	180,046,018	180,046,018
Other contingent items	207,216,884	207,216,884
Expected Credit Loss Allowance (Note 40.1.1)	(6,882,856)	(6,882,856)
	380,380,046	380,380,046

As at 31 December 2021	Stage 1 Rs.	Total Rs.
Guarantees and performance bonds	177,766,968	177,766,968
Other contingent items	51,429,192	51,429,192
Expected Credit Loss Allowance (Note 40.1.1)	6,882,856	6,882,856
	236,079,014	236,079,014

40.1.1 Expected Credit Loss Allowance

	2022 Rs.	2021 Rs.
Balance as at 1st January	3,308,006	2,042,296
Net Charge for the year	3,574,850	1,265,710
Balance as at 31st December	6,882,856	3,308,006

40.2 Assessment Received by the Bank

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

Income Tax

Notice of assessments issued for the year of assessment, 2014/15 LKR.653 Mn. (ITA18280500065),2015/16 LKR.573 Mn.(0201516002) ,2016/17 LKR.138 Mn.(0201617002) ,2017/18 LKR.1,023 Mn (0201718001) and 2018/19 LKR.246 Mn. (0201819002) discussions are going with the authorities on for full settlement. Provisions have been constructed on the likely outcome as advised by the respective tax consultant.

Value Added Tax

Value Added Tax on Financial Services for the years 2016 (VATFS/BFSU/2019/1002) ,2017 (07501718002),2018 (075018190002) and 2019 (07501920002) were respectively LKR.197.7 Mn.

41. Litigations Against the Bank

Litigation is a common occurrence in the banking industry due to nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of possible losses reasonably estimated, the bank makes adjustments to accounts for adverse effects for which the claims may have on its financial standing. As at 31/12/2022, the Bank has 39 legal claims against the Bank and all material claims have been adequately provided for. The Legal Department of the Bank is of the view that currently pending litigations against the Bank will not have a material impact on the reported financial results or the future operations of the bank.

42. Events After the Reporting Date

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

43. Current vs Non Current Analysis

As at 31 December 2022	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Assets			
Cash and cash equivalent	2,889,883,677	-	2,889,883,677
Placements with banks	6,133,705,351	-	6,133,705,351
Equity Instruments at fair value through profit or loss	120,280	-	120,280
Financial assets at amortised cost-Loans and receivables from other customers	51,925,223,135	146,082,922,020	198,008,145,155
Financial assets at amortised cost-Debt & other instruments	65,079,635,908	-	65,079,635,908
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property, plant and equipment	-	926,615,241	926,615,241
Intangible assets	-	68,867,744	68,867,744
Right of use assets	-	718,096,698	718,096,698
Deferred tax assets	-	3,525,174,919	3,525,174,919
Other assets	3,426,030,585	4,616,584,965	8,042,615,550
Total assets	129,454,598,937	155,940,551,506	285,395,150,443
Liabilities			
Due to banks	3,459,855,516	44,010,851,540	47,470,707,056
Due to other customers	151,286,336,343	59,014,987,125	210,301,323,468
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	1,011,924,146	-	1,011,924,146
Other liabilities	3,732,121,974	3,561,365,287	7,293,487,262
Retirement benefit obligation	299,493,340	2,792,087,796	3,091,581,136
Total liabilities	161,789,731,318	109,379,291,749	271,169,023,068
Maturity Gap	(32,335,132,382)	46,561,259,757	14,226,127,375
Cumulative Gap	(32,335,132,382)	14,226,127,375	-

As at 31 December 2021	Within 12 Months Rs.	After 12 Months Rs.	Total Rs.
Assets			
Cash and cash equivalent	1,486,878,989	-	1,486,878,989
Placements with banks	6,596,072,932	-	6,596,072,932
Equity Instruments at fair value through profit or loss	188,140	-	188,140
Financial assets at amortised cost-Loans and receivables from other customers	62,634,410,988	112,595,255,668	175,229,666,656
Financial assets at amortised cost-Debt & other instruments	54,856,210,318	-	54,856,210,318
Equity Instruments at fair value through other comprehensive income	-	2,289,919	2,289,919
Property, plant and equipment	-	928,568,438	928,568,438
Intangible assets	-	113,688,780	113,688,780
Right of use assets	-	505,092,023	505,092,023
Deferred tax assets	-	1,263,795,071	1,263,795,071
Other assets	3,827,515,561	1,079,544,736	4,907,060,296
Total assets	129,401,276,928	116,488,234,635	245,889,511,562
Liabilities			
Due to banks	4,143,128,486	25,357,808,057	29,500,936,543
Due to other customers	127,934,846,256	59,817,618,999	187,752,465,256
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	503,021,886	-	503,021,886
Other liabilities	3,562,698,921	4,130,601,890	7,693,300,811
Retirement benefit obligation	193,769,265	2,852,695,474	3,046,464,739
Total liabilities	138,337,464,814	92,158,724,420	230,496,189,234
Maturity Gap	(8,936,187,887)	24,329,510,214	15,393,322,327
Cumulative Gap	(8,936,187,887)	15,393,322,328	-

44. Financial Risk Management

44.1 Introduction and Overview

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

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

44.1.1 Risk Management Framework

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

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

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

44.1.2 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.

44.1.3 Risk Measurement & Reporting

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

44.1.4 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.

44.2 Credit Risk

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

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

Management of Credit Risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Heads of Credit, Board Credit Committee (Discontinued with effect from June 2021) or the Board of Directors as appropriate.

- Reviewing and assessing credit risk. Heads of Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Heads of Credit who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

Exposure to Credit Risk

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

Credit Quality Analysis
The Bank's Delinquency status

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

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As at December	2022			
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Financial investments at amortised cost-Debt & other instruments				
Quoted debentures	623,946,610	-	-	623,946,610
Government debt securities-treasury bills & bonds	11,487,849,406	-	-	11,487,849,406
Investment in fixed deposits	52,970,666,614	-	-	52,970,666,614
Total debt and other instruments	65,082,462,630	-	-	65,082,462,630
Expected credit loss allowance	(1,760,892)	-	-	(1,760,892)
Net debt and other instruments	65,080,701,739	-	-	65,080,701,739
Placements with banks				
Money market placements	6,133,705,351	-	-	6,133,705,351
Total placements with banks	6,133,705,351	-	-	6,133,705,351
Expected credit loss allowance	-	-	-	-
Net placements with banks	6,133,705,351	-	-	6,133,705,351
Commitments and Contingencies *				
Bank Guarantee	180,046,018	-	-	180,046,018
Bills Send for Collection	207,216,884	-	-	207,216,884
Total commitments and contingencies	387,262,902	-	-	387,262,902
Expected credit loss allowance	(6,882,856)	-	-	(6,882,856)
Net commitments and contingencies	380,380,046	-	-	380,380,046

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

2021			
Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
623,946,610	-	-	623,946,610
4,813,547,891	-	-	4,813,547,891
49,420,476,709	-	-	49,420,476,709
54,857,971,211	-	-	54,857,971,211
(1,760,892)	-	-	(1,760,892)
54,856,210,319	-	-	54,856,210,319
6,596,072,932	-	-	6,596,072,932
6,596,072,932	-	-	6,596,072,932
-	-	-	-
6,596,072,932	-	-	6,596,072,932
177,766,966	-	-	177,766,966
51,429,192	-	-	51,429,192
229,196,158	-	-	229,196,158
(3,308,006)	-	-	(3,308,006)
225,888,152	-	-	225,888,152

44.2.1 Measurement of Expected Credit Losses (ECL)

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

Significant increase in Credit Risk

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

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

Incorporation of Forward-Looking Information

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

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

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

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

An overview of the approach to estimating ECLs is set out in Note 2 Summary of significant accounting policies and in Note 2.1 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2022.

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

As at 31 December

Key drivers	ECL Scenario	2023 %	2024 %	2025 %	2026 %	Subsequent Years
GDP growth %						
	Base Case	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%
	Best Case	3.5%	4.1%	4.6%	5.2%	5.6%
	Worse Case	-9.1%	-8.0%	-6.8%	-5.4%	-8.0%
Inflation Rates %						
	Base Case	54.2%	54.2%	54.2%	54.2%	54.2%
	Best Case	35.4%	30.7%	26.5%	22.9%	18.4%
	Worse Case	60.9%	60.9%	60.9%	60.9%	60.9%
Interest Rate %						
	Base Case	14.5%	14.5%	14.5%	14.5%	14.5%
	Best Case	13.3%	13.0%	12.6%	12.3%	11.8%
	Worse Case	15.3%	16.0%	16.7%	17.4%	17.9%
Exchange rates (USD $ to LKR)						
	Base Case	421.73	491.43	550.00	550.00	550.00
	Best Case	362.87	363.82	364.78	365.74	366.70
	Worse Case	550.00	550.00	550.00	550.00	550.00
Unemployment rates %						
	Base Case	5.0%	5.0%	5.0%	5.0%	5.0%
	Best Case	4.9%	4.9%	4.9%	4.9%	4.8%
	Worse Case	5.0%	5.1%	5.1%	5.1%	5.2%

Measurement of ECL

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

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

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

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

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Treasury, trading and interbank relationships

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

Sector classification of loans

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

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

The highest sector under this classification as per the banks closing books, 2022 is the Housing Loan followed by Refinance, Commercial, Agriculture, Pawning, Industrial, and Other Loans, Loans against deposits, Staff loans, Leasing, SME, Liya Isura Loans.

Sector wise portfolios	Rs.
Term Loan - Housing	49,820,375,132
Refinance	37,587,477,683
Term Loan - Commercial	24,913,536,960
Term Loan - Agriculture	19,942,668,431
Pawning	42,234,452,674
Term Loan - Industrial	16,451,115,535
Term Loan - Other	7,035,425,261
Loan Against Deposit	10,333,536,605
Staff	5,501,110,905
Leasing	1,397,522,296
SME	121,313,411
Liya Isura	33,966,988

Corporate loans (Services, Manufacturing and Industry loans)

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

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending and retail loans

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

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

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

Grouping financial assets measured on a collective basis

Asset classes where the Bank calculates ECL on an individual basis includes all customers above the individually significant threshold of LKR 5mn of the total exposure.

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

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

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

- Product Type
- Interest Rate

44.2.2 Collateral held and Other Credit Enhancements

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

Definition of Past Due

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

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

As at 31 December	2022 Rs.	2021 Rs.
Collateral Type		
Land & Buildings	27,770,254,509	28,440,620,295
Machinery	1,281,765,425	1,002,307,447
Motor Vehicles	2,518,646,804	2,003,005,196
Gold	42,217,210,774	20,172,426,918
Fixed Deposits	10,333,536,604	6,669,463,537
Personal Guarantees	117,387,564,475	117,077,766,283
Bank Guarantees	756,422	993,213
Others	13,862,766,869	13,673,083,531
	215,372,501,881	189,039,666,420

As at 31 December	2022		2021	
	Maximum Exposure to Credit Risk	**Exposure Net of Collateral**	Maximum Exposure to Credit Risk	Exposure Net of Collateral
	Rs.	**Rs.**	Rs.	Rs.
Cash and cash equivalent	**2,889,883,677**	**2,889,883,677**	1,486,878,989	1,486,878,989
Placements with Banks	**6,133,705,351**	**6,133,705,351**	6,596,072,932	6,596,072,932
Equity Instruments at fair value through profit or loss	**120,280**	**120,280**	188,140	188,140
Financial assets at amortised cost-Loans and receivables from other customers	**215,372,501,881**	**131,251,087,765**	189,039,666,420	130,751,843,027
Financial investments at amortised cost-Debt & other instruments	**65,079,635,908**	**65,079,635,908**	54,856,210,318	54,856,186,484
Equity Instruments at fair value through profit or loss	**2,289,919**	**2,289,919**	2,289,919	2,289,919
Other assets	**6,018,325,952**	**6,018,325,952**	3,721,641,936	3,617,507,110

	Forced Sale Value of Foreclosed Collateral	
	2022	2021
Foreclosed Properties	**Rs.**	Rs.
Balance as at 01 January	**165,450,000**	165,450,000
Additions during the year	-	-
Disposals during the year	-	-
Valuation changes	-	-
Balance as at 31 December	**165,450,000**	165,450,000

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

Loan-to-value ratio (LTV) Residential Mortgage lending

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

As at 31 December	**2022**	2021
	Rs.	Rs.
LTV ratio		
Less than 50%	-	-
51-70%	**27,770,254,509**	28,440,620,295
71-90%	-	-
91-100%	-	-
More than 100%	-	-
Total	**27,770,254,509**	28,440,620,295

44.2.3 Concentration of Credit risk

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

Concentrations of credit risk

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

	Loans and Advances to Customers		Investment debt securities		Lending commitments and financial guarantees	
	2022	2021	**2022**	2021	**2022**	2021
	Rs.	Rs.	**Rs.**	Rs.	**Rs.**	Rs.
Carrying amount	**215,372,501,881**	189,039,666,420	**65,082,462,630**	54,857,971,210	**387,262,902**	229,196,158
Amounts committed/ guaranteed						
Concentration by sector						
Corporate:						
Other	-	-	-	-	**387,262,902**	229,196,158
Government	-	-	**11,487,849,406**	4,813,547,891	-	-
Banks	-	-	**53,594,613,224**	50,044,423,320	-	-
Retail:						
Personal Guarantee	**117,387,564,475**	117,077,766,283	-	-	-	-
Mortgages	**84,122,170,538**	58,287,823,393	-	-	-	-
Unsecured lending	**13,862,766,869**	13,674,076,744	-	-	-	-
	215,372,501,881	189,039,666,420	**65,082,462,630**	54,857,971,211	**387,262,902**	229,196,158

44.3 Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Management of Liquidity Risk

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

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

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

44.3.1 Exposure to Liquidity Risk

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

	2022 DBU %	2021 DBU %
At 31 December	27.83%	26.18%
Average for the year	27.16%	27.64%
Maximum for the year	29.78%	28.46%
Minimum for the year	25.10%	26.18%

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020, due to the COVID- 19 pandemic situation licensed banks are permitted to consider the following assets as liquid assets in the computation of the Statutory Liquid Assets Ratio until 31 December 2022

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- Interest subsidy receivable on Senior Citizens Special Deposit Scheme.
- Exposures to State Owned Entities guaranteed by the Government of Sri Lanka and classified in Stage 1 under SLFRS 9 Financial Instruments for financial reporting purposes with maturity not exceeding one year with hair-cut of 10%.
- Fixed Deposits held by licensed banks in other licensed banks;

(a) where remaining period to maturity exceeds 1 year but is less than or equal to 2 years, with hair-cut of 20%,
(b) if the remaining period to maturity exceeds 2 years but is less than or equal to 3 years, with hair-cut of 30%.

- Loans secured by deposits under lien equivalent to 20% of the deposits.
- Receivables from Employees Provident Fund (EPF) in settlement of loans.

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

44.3.2 Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial liabilities as at 31 December 2022. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

As at 31 December 2022	Carrying Value Rs.	Total Rs.	Less than 3 months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5 Years Rs.
Non - Derivative Liabilities							
Due to banks	47,470,707,056	47,470,707,056	341,729,856	3,118,125,660	4,440,243,697	14,000,065,200	25,570,542,634
Due to other customers	210,301,323,468	210,301,323,468	39,028,814,697	112,257,521,646	11,660,479,038	15,939,669,814	31,414,838,273
Debt issued and other borrowed funds	-	2,076,176,663	2,076,176,663	-	-	-	-
Other liabilities	7,293,487,262	8,804,727,995	1,713,880,930	2,363,638,596	2,110,610,176	1,135,661,764	1,480,936,529
Total Non - Derivative Liabilities	265,065,517,787	268,652,935,183	43,160,602,145	117,739,285,903	18,211,332,912	31,075,396,787	58,466,317,437

As at 31 December 2021	Carrying Value Rs.	Total Rs.	Less than 3 months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	Over 5 Years Rs.
Non - Derivative Liabilities							
Due to banks	29,500,936,543	33,271,523,388	1,458,704,149	3,468,762,024	15,825,578,727	50,147,714	12,470,330,773
Due to other customers	187,752,465,256	192,354,798,672	48,125,528,994	84,078,496,904	12,483,089,634	15,917,855,300	31,749,827,841
Debt issued and other borrowed funds	2,000,000,000	2,076,176,663	2,076,176,663	-	-	-	-
Other liabilities	7,693,300,812	7,693,300,812	1,497,536,500	2,065,274,787	1,844,186,327	992,306,358	1,293,996,840
Total Non - Derivative Liabilities	226,946,702,610	235,395,799,534	53,157,948,306	89,610,533,715	30,152,854,688	16,960,309,372	45,514,155,454

44.3.3 Contractual Maturities of Commitments and Contingencies

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

As at 31 December 2022

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

As at 31 December 2021

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

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44.3.4 Liquidity Reserve

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

As at 31 December	2022	
	Carrying Amount	Fair Value
Cash and Cash equivalents	2,889,883,677	2,889,883,677
Placements with banks	1,908,705,351	1,908,705,351
Repo	4,225,000,000	4,225,000,000
Fixed Deposits	52,970,666,614	52,970,666,614
	61,994,255,642	61,994,255,642

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

44.3.5 Liquidity Coverage Ratio

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

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

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

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020 due to the COVID- 19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 31 December 2022 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - effective from	
1 July 2021	May 2020 to 31 December 2022
100	90

The following were the Liquidity Coverage Ratios (%) of the Bank as at 31 December:

As at 31 December	2022	2021
Rupee Liquidity Requirement for Local Currency Operations	167.25	174

44.3.6 Statutory Liquid Assets Ratio

For the month of December 2022	**27.83%**
For the month of December 2021	26.18%

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

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

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

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

As at 31st December 2022	**95.81%**
As at 31st December 2021	90.64%

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2022 and 31.12.2021.

	2022			
	Encumbered		Unencumbered	
	Pledged as collateral	Other	Other	Total
Cash and cash equivalent	-	-	**2,889,883,677**	**2,889,883,677**
Placements with banks	-	-	**6,133,705,351**	**6,133,705,351**
Equity Instruments at fair value through profit or loss	-	-	**120,280**	**120,280**
Financial assets at amortised cost-Loans and receivables from other customers	-	-	**198,008,145,155**	**198,008,145,155**
Financial assets at amortised cost-Debt & other instruments	**1,347,726,270**	-	**63,731,909,638**	**65,079,635,908**
Equity Instruments at fair value through other comprehensive income	-	-	**2,289,919**	**2,289,919**
Other assets	-	-	**8,042,615,550**	**8,042,615,550**
Total	**1,347,726,270**	-	**278,808,669,570**	**280,156,395,840**

	2021			
	Encumbered		Unencumbered	
	Pledged as collateral	Other	Other	Total
Cash and cash equivalent	-	-	1,486,878,989	1,486,878,989
Placements with banks	-	-	6,596,072,932	6,596,072,932
Equity Instruments at fair value through profit or loss	-	-	188,140	188,140
Financial assets at amortised cost-Loans and receivables from other customers	-	-	175,229,666,656	175,229,666,656
Financial assets at amortised cost-Debt & other instruments	2,690,695,651	-	52,165,490,833	54,856,186,484
Equity Instruments at fair value through other comprehensive income	-	-	2,289,919	2,289,919
Other assets	-	-	4,907,060,297	4,907,060,297
Total	2,690,695,651	-	240,387,647,766	243,078,343,416

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44.4 Market Risk

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

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

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

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

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

Management of Market Risk

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

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

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

Non - Trading Market Risk

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

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

44.4.1 Interest Rate Risk

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

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

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

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

Interest Rate Risk in the Banking Book (IRRBB)

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

Interest rate risk is also the risk that the Bank will experience in deterioration in its financial positions as interest rates move over time.

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

During the current year as well as the preceding year banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2022, was affected due to uncertainty and the various policies and regulations which were put into place from time to time to mitigate the adverseness of the economic conditions.

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

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

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

44.4.2 Maturity Gaps

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

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

A summary of the Bank's total assets and liabilities as at 31 December 2022, based on the remaining period at the reporting date to the respective Cash flow/ Maturity dates together with the maturity gaps are given below.

As at 31 December 2022	Carrying amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Interest Earning Assets					
Cash and balances with central bank	2,889,883,677	2,889,883,677	-	-	-
Placements with banks	6,133,705,351	6,133,705,351	-	-	-
Equity instruments at fair value through profit or loss	120,280	120,280	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	215,372,501,881	20,765,534,350	68,158,625,869	88,021,524,268	38,426,817,393
Financial investments at amortised cost-Debt & other instruments	65,082,462,630	36,189,771,645	22,925,323,999	4,858,812,738	1,108,554,248
Financial assets-fair value through other comprehensive income	2,289,919	-	-	-	2,289,919
Total Assets	289,480,963,738	65,979,015,303	91,083,949,869	92,880,337,006	39,537,661,560
			-		
Interest Bearing Liabilities					
Due to banks	47,470,707,056	341,729,856	3,118,125,660	18,440,308,907	25,570,542,634
Due to other customers	210,301,323,468	39,028,814,697	112,257,521,646	27,600,148,852	31,414,838,273
Debt issued and other borrowed funds	2,000,000,000	2,000,000,000	-	-	-
Total Liabilities	259,772,030,524	41,370,544,552	115,375,647,306	46,040,457,758	56,985,380,907
Gaps	29,708,933,214	24,608,470,751	(24,291,697,438)	46,839,879,248	(17,447,719,347)

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As at 31 December 2021	Carrying amount Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.
Interest Earning Assets					
Cash and balances with central bank	1,486,878,989	1,486,878,989	-	-	-
Placements with banks	6,596,072,932	6,596,072,932	-	-	-
Equity Instruments at fair value through profit or loss	188,140	188,140	-	-	-
Financial assets at amortised cost-Loans and receivables from other customers	189,039,066,420	18,110,092,805	49,460,589,634	87,271,577,867	34,197,406,113
Financial investments at amortised cost-Debt & other instruments	54,857,971,211	39,183,286,650	10,237,166,224	623,946,610	4,813,571,726
Financial assets-fair value through other comprehensive income	2,289,919	-	-	-	2,289,919
Total Assets	251,983,067,611	65,376,519,517	59,697,755,858	87,895,524,478	39,013,267,758
Interest Bearing Liabilities					
Due to banks	29,500,936,543	1,364,318,523	2,778,809,963	15,000,220,002	10,357,588,055
Due to other customers	187,752,465,256	47,613,449,121	80,321,397,135	28,159,887,937	31,657,731,062
Debt issued and other borrowed funds	2,000,000,000	2,000,000,000	-	-	-
Total Liabilities	219,253,401,799	50,977,767,644	83,100,207,098	43,160,107,938	42,015,319,117
Gaps	32,729,665,812	14,398,751,873	(23,402,451,240)	44,735,416,540	(3,002,051,360)

Interest Rate Benchmark Reforms

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

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

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

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

44.4.3 Exposure to Other Market Risks
Foreign Currency Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. Bank is exposed to foreign currency risk resulting from foreign currency assets and liabilities taken over from former Lanka Puthra Development Bank and loan from Asian Development Bank. Necessary precautions are in place in order to avoid/mitigate possible foreign currency risk in the near future.

During the year, the banking sector experienced uncertainty in market situations due to the lack of foreign currency liquidity especially the US dollars. This mostly led to the banking industry being unable to meet the expected levels in liability conversion transactions especially trade related transactions. The market also experienced a drop in asset conversion transaction such as the inward remittance and export bills. This situation led to depreciation of USD/ LKR rates which was mostly a controlled exchange rate which traded around 200 to 363 levels.

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

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

As at 31 December	In Original Foreign Currency		Functional Currency of the Bank	
	2022	2021	2022	2021
	USD	USD	Rs.	Rs.
Net Foreign Currency Exposure				
Financial assets denominated in foreign currency	**68,070,895**	53,803,708	**24,913,947,739**	10,801,094,369
Financial liabilities denominated in foreign currency	**63,099,435**	53,658,862	**23,094,393,092**	10,772,016,498

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

As at 31 December	2022		2021	
	USD	Rs.	USD	Rs.
NOP	**4,971,461**	**1,819,554,647**	144,846	29,077,872
At Shocks Level of	Revised Rupee position	Effect on income statement	Revised Rupee position	Effect on income statement
5%	1,910,532,380	90,977,732	30,531,766	1,453,894
10%	2,001,510,112	181,955,465	31,985,659	2,907,787
15%	2,092,487,844	272,933,197	33,439,553	4,361,681

44.5 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.

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

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

45. Capital Management

45.1 Regulatory Capital

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

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

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

Capital Management

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

45.2 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.

45.3 Available Capital

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

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

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

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

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

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

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

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

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

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

As at December	Basel III	
	2022 Rs.	2021 Rs.
Assets		
Total Risk Weighted Amount (including Off- Balance Sheet Items)	**143,939,205,752**	153,296,177,322
Risk Weighted amount of Off-Balance Sheet Exposure	**35,609,204**	35,553,393
Capital		
Common Equity Tier 1 Capital	**11,932,386,377**	14,189,229,195
Total Tier 1 Capital	**11,932,386,377**	14,189,229,195
Total Capital	**21,908,992,974**	20,168,998,565
Capital Adequacy Ratios		
Common Equity Tier 1 Capital Ratio (%)	**8.29%**	8.72%
Tier 1 Capital Ratio (%)	**8.29%**	8.72%
Total Capital Ratio (%)	**15.22%**	14.27%

46. Fair Value of Financial Instruments

46.1 Determining Fair Values

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

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

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

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

46.2 Valuation Models

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

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

46.3 Valuation Framework

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

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

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

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

46.4 Financial Instruments Measured at Fair Value – Fair Value Hierarchy

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

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

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

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46.5 Trading assets and other assets measured at fair value

Financial assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably

46.6 Financial Instruments not measured at fair value

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

	Fair value hierarchy	2022 Carrying amount Rs.	2022 Fair value Rs.	2021 Carrying amount Rs.	2021 Fair value Rs.
Financial assets					
Cash and cash equivalent	Level 2	**2,889,883,677**	**2,889,883,677**	1,486,878,989	1,486,878,989
Placements with Banks	Level 2	**6,133,705,351**	**6,133,705,351**	6,596,072,932	6,596,072,932
Financial assets at amortised cost - Debt & other instruments	Level 2	**65,079,635,908**	**65,079,635,908**	54,856,210,318	54,520,749,578
Financial assets at amortised cost - Loans and receivables from other customers					
Pawning	Level 2	**42,234,452,674**	**42,234,452,674**	20,173,958,657	20,173,958,657
Staff loans	Level 2	**5,501,098,905**	**5,501,098,905**	4,614,968,345	4,470,424,793
Short-term	Level 2	**13,716,623,362**	**13,716,623,362**	9,989,450,293	9,989,450,293
Long-term	Level 2	**152,522,804,644**	**152,522,804,644**	153,291,882,926	95,480,281,792
Other assets	Level 2	**6,018,325,952**	**6,018,325,952**	3,721,641,936	3,721,641,936
		294,096,530,472	**294,096,530,472**	254,731,064,396	196,439,458,971
Financial liabilities					
Due to banks	Level 2	**47,470,707,056**	**47,470,707,056**	29,500,936,543	29,211,567,919
Due to other customers	Level 2	**210,301,323,468**	**210,301,323,468**	187,752,465,256	187,752,465,256
Debt issued and other borrowed funds	Level 2	-	-	2,000,000,000	2,000,000,000
Other liabilities	Level 2	**6,426,430,198**	**6,426,430,198**	5,514,857,775	5,514,857,775
		264,198,460,722	**264,198,460,722**	224,768,259,574	224,478,890,950

46.7 Basis of measurement for the fair value of financial assets and liabilities not carried at fair value

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than one year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to savings accounts without a specific maturity.

Loans and Receivables to customers

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

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

Due to Customers

Around 68% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

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

SUPPLEMENTARY INFORMATION

FIVE YEAR SUMMARY

Description	2022 LKR	2021 LKR
Profit & Loss		
Total Income	36,202,749,629	24,492,768,957
Interest Income	35,273,433,857	23,545,299,165
Interest Expenses	(19,639,529,550)	(9,893,373,234)
Net Interest Income	15,633,904,307	13,651,925,931
Net Other Income	574,130,849	635,357,741
Total operating income	16,208,035,156	14,287,283,672
Impairment loss on financial assets	(2,852,677,176)	(3,256,775,862)
Net operating income	13,355,357,980	11,030,507,810
Personal expenses	(8,739,537,602)	(7,292,269,883)
Depreciation and amortization expenses	(532,733,987)	(520,988,009)
Other expenses	(2,084,970,281)	(1,290,468,186)
Operating Profit	1,998,116,109	1,926,781,733
Nations Buildings Tax	-	-
VAT on Financial Services	(1,561,474,848)	(1,151,277,133)
Social Security Contribution Levy	(77,525,933)	-
Debt repayment levy	-	-
Profit Before Taxation	359,115,328	775,504,600
Income tax (expense) /reversal	990,279,323	(469,201,889)
Profit After Taxation	1,349,394,652	306,302,711
Assets		
Cash and cash equivalent	2,889,883,677	1,466,878,989
Placements with banks	6,133,705,351	6,596,072,932
Equity Instruments at fair value through profit or loss	120,280	188,140
Financial assets at amortized cost-Loans and receivables from other customers	198,008,145,155	175,229,666,656
Financial investments at amortized cost-Debt & other instruments	65,079,635,908	54,656,210,318
Equity Instruments at fair value through other comprehensive income	2,289,919	2,289,919
Property, plant and equipment	926,615,241	928,568,438
Intangible assets	68,867,744	113,688,780
Right of use assets	718,096,698	505,092,023
Deferred tax assets	3,525,174,919	1,263,795,071
Other assets	8,042,615,550	4,907,060,297
Total Assets	285,395,150,443	245,889,511,562
Liabilities		
Due to banks	47,470,707,056	29,500,936,543
Due to other customers	210,301,323,468	187,752,465,256
Debt issued and other borrowed funds	-	2,000,000,000
Current tax liabilities	1,011,924,146	503,021,886
Other liabilities	7,293,487,262	7,693,300,812
Retirement benefit obligation	3,091,581,136	3,046,464,739
Total Liabilities	269,169,023,068	230,496,189,235
Equity		
Stated capital	8,221,864,565	8,047,229,930
Statutory reserve fund	845,247,866	777,778,133
Retained earnings	2,889,785,536	2,636,433,521
Other reserves	4,269,229,407	3,931,880,743
Total shareholders' equity	16,226,127,375	15,393,322,327
Total equity and liabilities	285,395,150,443	245,889,511,562
Liquid Assets Ratio	27.83%	26.18%
Capital Adequacy Ratio - AS per BASEL III		
Common Equity Tier 1 Capital Ratio	8.29%	8.72%
Total Tier 1 Capital Ratio	8.29%	8.72%
Total Capital Ratio	15.22%	14.27%

	2020 LKR	2019 LKR	2018 LKR
	24,354,246,869	27,507,821,054	26,070,610,605
	23,162,459,141	26,357,071,298	24,865,108,981
	(12,294,380,832)	(13,903,881,276)	(12,959,526,709)
	10,868,078,309	12,453,190,022	11,905,582,272
	899,852,505	872,445,458	946,396,458
	11,767,930,814	13,325,635,480	12,851,978,730
	(2,010,929,062)	(2,408,746,853)	(1,409,784,095)
	9,777,001,752	10,916,886,627	11,442,194,635
	(5,983,382,037)	(5,931,626,972)	(5,877,946,793)
	(616,792,758)	(617,322,679)	(319,020,738)
	(1,115,987,925)	(1,407,680,268)	(1,638,896,765)
	2,060,859,032	2,960,257,709	3,606,330,338
	-	(123,625,704)	(154,490,412)
	(1,047,410,630)	(1,012,948,950)	(1,158,678,090)
	-	-	-
	-	(601,522,646)	(190,079,946)
	1,013,448,401	1,222,160,409	2,103,081,890
	(609,412,349)	(723,565,878)	(1,029,495,530)
	404,036,052	498,594,531	1,073,586,360
	3,758,858,141	2,750,187,219	689,184,136
	8,436,353,244	9,798,242,492	6,496,628,053
	145,160	123,000	115,600
	156,694,052,473	136,206,641,441	133,432,804,004
	46,962,354,137	45,864,745,400	27,920,326,465
	2,289,919	2,289,919	4,176,342,999
	970,538,655	1,226,419,894	1,275,785,603
	21,272,699	45,356,343	60,787,719
	596,978,557	855,183,154	-
	903,720,969	696,316,484	467,332,859
	2,760,586,570	2,732,423,840	2,416,011,987
	221,109,150,524	199,978,929,186	176,937,319,425
	21,796,679,350	22,050,009,005	11,096,334,822
	172,882,632,278	149,599,829,047	141,559,973,557
	2,000,000,000	4,707,852,534	4,707,852,534
	378,203,555	448,881,448	473,833,078
	6,154,443,776	5,970,920,446	2,460,286,430
	2,782,874,624	2,236,115,128	1,926,924,377
	205,994,833,583	185,013,607,608	162,227,204,796
	8,047,229,930	8,047,229,930	8,047,229,930
	762,462,998	742,261,195	717,331,468
	2,449,318,947	2,421,534,400	2,315,905,812
	3,855,305,066	3,754,296,053	3,629,647,420
	15,114,316,941	14,965,321,578	14,710,114,631
	221,109,150,524	199,978,929,186	176,937,319,428
	29.30%	32.38%	24.27%
	10.34%	10.90%	11.58%
	10.34%	10.90%	11.58%
	14.94%	16.27%	13.61%

INVESTOR INFORMATION

Significant Ratios

Ratios	31/12/2022	31/12/2021
Net Assets Value Per Share (Rs.)	**29.43**	28.24
Debt to Equity (%)	**6.93%**	12.99%
Interest Cover (Times)	**1.93**	2.63

Share Information

Shareholders	Current Year		Previous Year	
	31/12/2022		31/12/2021	
	No of Ordinary Shares	Holding as %	No of Ordinary Shares	Holding as %
General Treasury	**501,941,973**	**91%**	496,758,027	91%
Bank of Ceylon	**16,448,448**	**3%**	16,448,448	3%
Peoples Bank	**16,448,448**	**3%**	16,448,448	3%
National Savings Bank	**16,452,126**	**3%**	16,452,126	3%
	551,290,995		545,107,049	

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Provinces of Sri Lanka

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

Districts of Sri Lanka

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

North Western Province		Sabaragamuwa Province	
Admin District Office	Branch Name	Admin District Office	Branch Name
Kurunegala	Alawwa	Kegalle	Aranayake
Kurunegala	Ambanpola	Kegalle	Bulathkohupitiya
Kurunegala	Athugalpura	Kegalle	Dehiowita
Kurunegala	Galgamuwa	Kegalle	Deraniyagala
Kurunegala	Giriulla	Kegalle	Dewalegama
Kurunegala	Ibbagamuwa	Kegalle	Hemmathagama
Kurunegala	Kuliyapitiya	Kegalle	Kegalle
Kurunegala	Kurunegala	Kegalle	Kitulgala
Kurunegala	Maho	Kegalle	Kotiyakumbura
Kurunegala	Mawathagama	Kegalle	Mawanella
Kurunegala	Melsiripura	Kegalle	Nelumdeniya
Kurunegala	Narammala	Kegalle	Pitagaldeniya
Kurunegala	Nikaweratiya	Kegalle	Rambukkana
Kurunegala	Panduwasnuwara	Kegalle	Ruwanwella
Kurunegala	Paragahadeniya	Kegalle	Warakapola
Kurunegala	Perakumpura	Kegalle	Yatiyanthota
Kurunegala	Polpithigama	Rathnapura	Balangoda
Kurunegala	Pothuhera	Rathnapura	Eheliyagoda
Kurunegala	Rideegama	Rathnapura	Embilipitiya
Kurunegala	Wariyapola	Rathnapura	Erathna
Puttalam	Anamaduwa	Rathnapura	Godakawela
Puttalam	Bowatta	Rathnapura	Kahawatta
Puttalam	Chilaw	Rathnapura	Kalawana
Puttalam	Dummalasuriya	Rathnapura	Kiriella
Puttalam	Kalpitiya	Rathnapura	Kolonna
Puttalam	Kirimatiyana	Rathnapura	Kuruvita
Puttalam	Mahawewa	Rathnapura	Nivithigala
Puttalam	Mampuri	Rathnapura	Pelmadulla
Puttalam	Mundel	Rathnapura	Pothupitiya
Puttalam	Nattandiya	Rathnapura	Pulungupitiya
Puttalam	Nawagaththegama	Rathnapura	Rakwana
Puttalam	Palakuda	Rathnapura	Rathnapura
Puttalam	Pannala	Rathnapura	Sri Palabaddala
Puttalam	Puttalam	Rathnapura	Weligepola
Puttalam	Santa Anapura		
Puttalam	Wennappuwa		

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Southern Province

Admin District Office	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
Galle	Thalgaswala
Galle	Udugama
Galle	Uragasmanhandiya
Galle	Yakkalamulla
Hambantota	Agunakolapelessa
Hambantota	Ambalantota
Hambantota	Barawakumbuka
Hambantota	Beliatta
Hambantota	Hambantota
Hambantota	Katuwana
Hambantota	Lunugamvehera
Hambantota	Middeniya
Hambantota	Ranna
Hambantota	Sooriyawewa
Hambantota	Tangalle
Hambantota	Thissamaharama
Hambantota	Walasmulla
Hambantota	Warapitiya
Hambantota	Weeraketiya
Matara	Akuressa
Matara	Deiyandara
Matara	Deniyaya
Matara	Devinuwara
Matara	Dikwella
Matara	Gandara
Matara	Hakmana
Matara	Kamburugamuwa
Matara	Kamburupitiya

Southern Province

Admin District Office	Branch Name
Matara	Kekanadura
Matara	Kirinda
Matara	Matara City
Matara	Mawarala
Matara	Mirissa
Matara	Morawaka
Matara	Pamburana
Matara	Pitabeddara
Matara	Thihagoda
Matara	Urubokka
Matara	Weligama

Eastern Province

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

Central Province

Admin District Office	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
Nuwaraeliya	Nuwara Eliya
Nuwara Eliya	Pundaluoya
Nuwara Eliya	Rikillagaskada

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Western Province

Admin District Office	Branch Name
Gampaha	Awissawella
Gampaha	Homagama
Gampaha	Kolonnawa
Gampaha	Nugegoda
Gampaha	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 Office	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	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

North Central & Northern Province

Admin District Office	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 City
Anuradhapura	Thirappane
Anuradhapura	Bogaswewa
Kilinochchi	Chunnakam
Kilinochchi	Jaffna
Kilinochchi	Kilinochchi
Kilinochchi	Mannar
Kilinochchi	Vavuniya
Kilinochchi	Kanakarayankulam
Polonnaruwa	Aralaganwila
Polonnaruwa	Bakamoona
Polonnaruwa	Galamuna
Polonnaruwa	Hingurakgoda
Polonnaruwa	Kaduruwela
Polonnaruwa	Manampitiya
Polonnaruwa	Medirigiriya
Polonnaruwa	Polonnaruwa
Polonnaruwa	Pulasthigama
Polonnaruwa	Sewanapitiya
Polonnaruwa	Siripura

NOTES

CORPORATE INFORMATION

Registered Name of the Bank
Pradeshiya Sanwardhana Bank

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

Credit Rating
"BBB+" Negative ICRA Lanka Limited

Board of Directors
Independant Non-Executive Directors

Mr. M. Mahinda Saliya - Chairman
Mr. Lalith Abeysiriwardhana
Mr. W.M. Karunaratne
Professor H.M.W. Ariyarathna Herath
Dr. Nirmal De Silva
Mrs. Hiranthi Karunaratne

Non- Independant Non-Executive Directors
Mr. K. Raveendran
Mr. G. A Jayashantha
Mr. M. S. S. S. Fernando
Ms. V.K. Narangoda
Mr. W. A. Sarath Kumara

General Manager/ CEO
Mr. Sumeda Edirisuriya
(Covering up of Duties)

Secretary to the Board of Directors
Mrs. R.M.T. Rajapakse

Number of Branches
272

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

Designed by
KONCEPT HIVE

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பிரதேச அபிவிருத்தி வங்கி
RDB Regional Development Bank

No. 933, Kandy Road, Wedamulla,
Kelaniya, Sri Lanka
www.rdb.lk