ANNUAL REPORT 2023

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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank

“Seeds of prosperity; Banking for sustainable regional growth.”

RDB is a bank expanding and introducing innovative banking solutions to foster sustainable economic growth and development at the regional level.

In the dawn of the recovering economic landscape, we at RDB foster regional development with a tailor-made approach. The bank plays a pivotal role in ensuring sustainable growth and development within regional communities. This multifaceted approach not only addresses the immediate financial needs of individuals and businesses but also paves the way for long-term economic stability and prosperity of the country.

The concept of planting seeds of prosperity begins with the implementation of innovative banking solutions tailored to the unique needs of regional economies. Unlike one-size-fits-all approaches, these solutions are designed to address specific challenges and leverage opportunities in rural areas.

For instance, RDB often provides more personalized services and understands local economic dynamics than large scale banks. By offering tailored financial products such as micro loans, small business loans, agricultural financing, financial education and accessible financing options, RDB empowers local entrepreneurs and businesses to thrive.

Correspondingly, RDB pledges to continue uplifting SMEs to overcome financial barriers, expand their operations, and contribute to the overall economic health of the regional communities.

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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

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RDB Regional Development Bank

ABOUT US

The beginning of the 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, Pradeshiya Sanwardana Bank (Regional Development Bank or RDB). The RDB was established under the Pradeshiya Sanwardana Bank Act No. 41 of 2008 as a fully State-owned national level bank with the long-term objective of improving the living standards of the rural masses by providing them with 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 2,700 professional permanent staff members, the RDB is well equipped to improve its entrepreneurs who will propel our country 's socio - economic prosperity.

Our Journey / Milestones

Total Assets Growth
632%
From LKR 41 Bn. to LKR 300 Bn.

Total Deposits Growth
606%
From LKR 32 Bn. to LKR 226 Bn.

Total loan and Advances Growth
610%
From LKR 30 Bn. to LKR 213 Bn.

Operating Profit Growth
845%
From LKR 371 Mn. to LKR 3,508 Mn.

Total Equity Growth
500%
From LKR 3 Bn. to LKR 18 Bn.

THE INSPIRATIONAL STORY OF SUCCESS AFTER MERGING SIX PROVINCIAL DEVELOPMENT BANKS AS ONE NATIONAL LEVEL DEVELOPMENT BANK

Results achieved by Provincial Development Banks (ie. Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks) during the twenty four years period from 1985 to 2009, have drastically improved, during the thirteen + years period (2010-2023) after establishing Regional Development Bank (RDB) in 2010 merging all previous provincial development banks.

HISTORY OF RDB

1985
Established 17 Regional Rural Development Banks.

1997
Established 6 Provincial Development Banks.

2010
Established one national level entity as Pradeshiya Sanwardana Bank.

2018
Acquired Lankaputhra Development Bank.

FROM MAY 2010 TO DECEMBER 2023

- Total Deposit of RDB has increased by LKR 194 Bn from LKR 32,350 Mn to LKR 226,080 Mn
- Total Loans and Advances of RDB has increased by LKR 184 Bn from LKR 30,311 MN to LKR 213,963 Mn
- Total Asset of RDB has increased by LKR 259 Bn from LKR 41,018 Mn to LKR 299,717 Mn

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 Banks 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 into six provincial development banks; Rajarata, Ruhuna, Wayamba, Kandurata, Uva and Sabaragamuwa Development Banks. With the introduction of the Pradeshiya Sanwardana Bank Act No. 41 of 2008 these six banks were merged into one national entity as Pradeshiya Sanwardana 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 programs 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. The 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 31.45% compared to the previous year. In the year 2023, operating profit increased to LKR 3,508 Mn which is 75.58% higher than the operating profit of LKR 1,998 Mn recorded in 2022. Return on Assets (ROA) before tax has recorded as 0.30% that stood at 0.47% in 2022.

SUPPORTIVE SERVICES TO OUR CUSTOMERS

Western Union With NDB

Money transfers through Western Union (WU) is an easier and speedier 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 has a wide international network consisting of over 275 locations and this service is available at 272 RDB branches island wide.

Common Electronic Fund Transfer Switch (CEFTS)

CEFTS allows customers to perform domestic interbank fund transfers in real-time at their convenience.

Sri Lanka Interbank Payment System (SLIPS)

SLIPS provides the opportunity to transfer funds in the local clearing network in Sri Lanka in a safe and secure manner.

Utility Bill Service with Sri Lanka Telecom, 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 & CDM Facilities

RDB customers are able to withdraw their money from any ATM island-wide. So far, approximately 368,000 ATM cards have been issued to customers and 51 RDB ATMs have been installed across the island.

RDB introduced Cash Deposit Machines (CDMs) in 2018 and these have been installed in many busy towns for the convenience of customers.

Furthermore, there are two automated banking centers in Padavi Parakramapura and Welioya where proper banking services are not found.

RDB QR

RDB launched “RDB QR” for merchants in 2021. Accordingly, RDB merchant customers are able to do the transactions through QR code without using cash or a card. This is a hassle free transaction for both merchants and buyers.

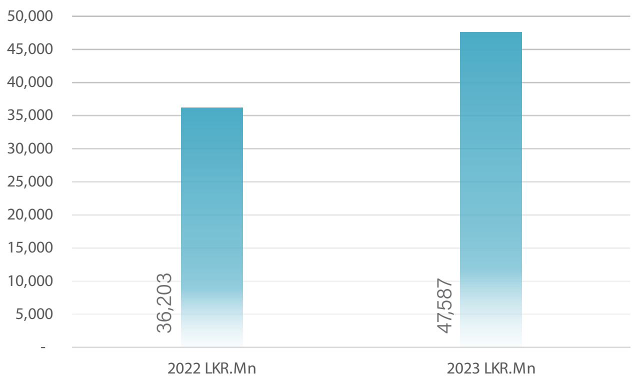
FINANCIAL HIGHLIGHTS

	2023 LKR.000	2022 LKR.000	Change %
Operating Results for the Year			
Gross Income	47,586,935	36,202,750	31.45%
Operating profit before taxes	3,508,267	1,998,116	75.58%
Taxation	2,644,749	648,721	307.69%
Profit after tax	863,518	1,349,395	-36.01%
Profit Attributable to shareholders	1,339,594	1,458,769	-8.17%
Assets & liabilities			
Customer Deposits	226,079,615	210,301,323	7.50%
Loans & receivables	213,962,635	215,372,502	-0.65%
Total Assets	299,717,438	285,395,150	5.02%
Total Liabilities	281,851,716	269,169,023	4.71%
Shareholder's Fund	17,865,722	16,226,127	10.10%
Profitability			
Return on assets (Operating Profits)	0.30%	0.47%	-0.17%
Return on equity (Operating Profits)	10.48%	8.54%	1.94%
Non Performing Loan Ratio	10.39%	8.46%	1.93%

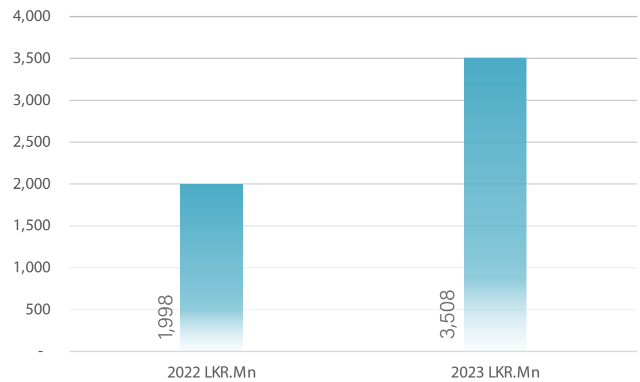
REGULATORY RATIOS

Capital Adequacy Ratio (As Per BASEL III)	2023 (%)	Minimum Requirement	2022 (%)	Minimum Requirement	Change %
Common Equity Tier 1 including Capital Conservation Buffer	10.09%	7.0%	8.29%	7.0%	1.80%
Total Tier 1 including Capital Conserva-tion Buffer	10.09%	8.5%	8.29%	8.5%	1.80%
Total Capital Ratio including Capital Conservation Buffer	17.28%	12.5%	15.22%	12.5%	2.06%
Statutory liquid assets ratio	38.73%	20.0%	27.83%	20.0%	10.90%

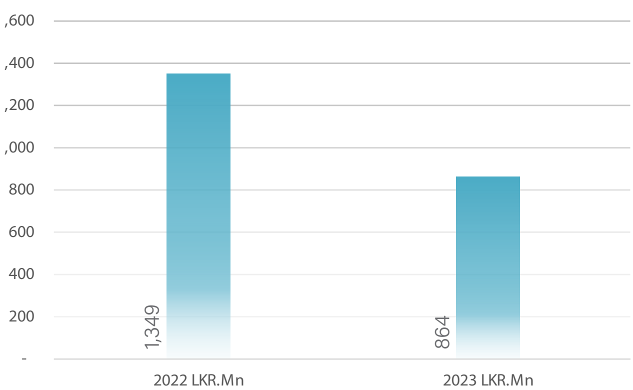
GROSS INCOME



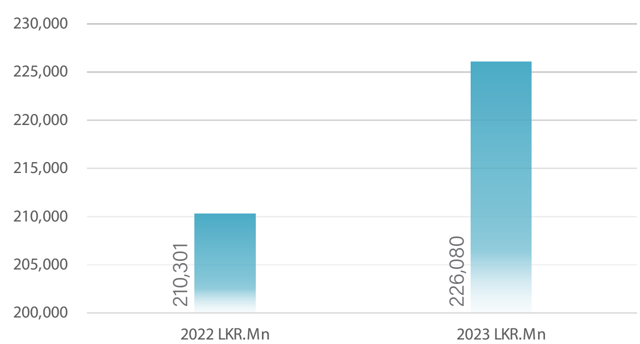
OPERATING PROFIT BEFORE TAXES



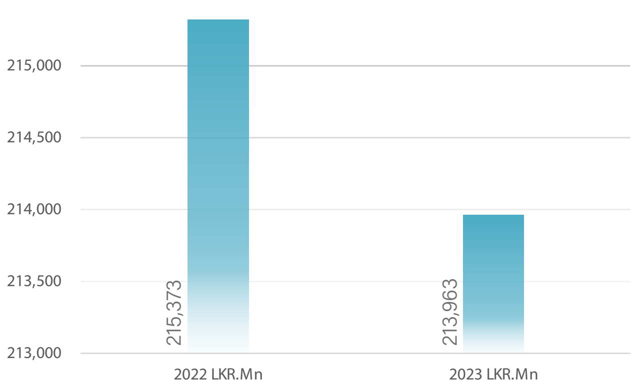
PROFIT AFTER TAX



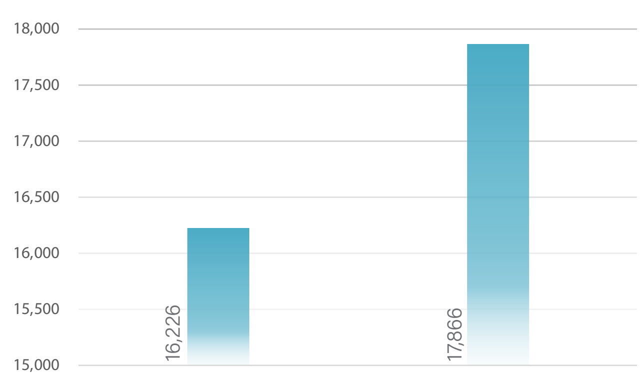
CUSTOMER DEPOSITS



LOANS AND RECEIVABLES



SHAREHOLDER'S FUND



Chairman’s Message

INTRODUCTION AND ECONOMIC OVERVIEW

As I assumed the role of Chairman of RDB Bank in December 2023, I recognized the significant challenges and opportunities facing both our institution and the broader economy. The year 2023 marked the beginning of a recovery from the economic hardships of 2022, which had a profound impact on the banking sector. High interest rates, reaching up to 30%, created a challenging environment, particularly in managing loans and advances issued at lower rates in previous years.

FINANCIAL PERFORMANCE AND RESILIENCE

Despite these difficulties, RDB Bank demonstrated remarkable resilience. We achieved an operating profit before taxes of 3.5 billion in 2023, a significant increase from the 1.9 billion recorded in the previous year. However, profit after tax saw a decline from 1.3 billion to 864 million, largely due to high interest rates and other economic pressures. Our loan growth outpaced industry averages, underscoring our commitment to supporting our core customer base, even in an unfavorable investment climate.

COMMITMENT TO RURAL COMMUNITIES AND SMES

Our dedication to serving rural and regional communities, SMEs, and MSMEs remained unwavering. While we prudently invested our excess liquidity in secure assets, our primary focus continued to be on supporting those at the grassroots level. Programs like the Diri Abhimani initiative, which empowers women entrepreneurs through financial literacy and training, are prime examples of our efforts to uplift these communities.

PARTNERSHIPS AND COLLABORATIVE EFFORTS

Partnerships played a crucial role in our success. We secured significant funding from the Asian Development Bank (ADB), which bolstered our financial resources. However, the cessation of many refinancing schemes due to the economic downturn and lack of international funding posed additional challenges. We continue to collaborate closely with government and private sector institutions, focusing on areas such as agro-technology and solar power, to provide comprehensive support that includes not just financial assistance but also necessary training and technical know-how.

ADVANCEMENTS IN DIGITAL TRANSFORMATION

In 2023, we made significant strides in our digital transformation journey. The launch of the Visa Debit Card marked a milestone in enhancing our digital banking services, although we faced challenges in adoption among our less tech-savvy clients. Internally, we initiated critical upgrades to our core banking system, including the implementation of the Loan Origination System (LOS), which is streamlining our loan processing operations and improving efficiency.

FOCUS ON SUSTAINABILITY AND FUTURE PLANS

Sustainability has become a key focus for us. We are committed to introducing projects with a reduced carbon footprint, leveraging green financing options from international agencies to support these initiatives. Looking ahead, our strategic priorities include enhancing partnerships and exploring new opportunities that align with both local and international banking trends. We will continue to serve our communities with a focus on sustainability, innovation, and growth.

LEGACY AND COMMUNITY ENGAGEMENT

RDB Bank's legacy of being close to the people, particularly at the grassroots level, remains one of our greatest strengths. Our "Dorin Dora" agents, who operate in the field daily, exemplify our commitment to staying connected with our communities and ensuring that our services reach those who need them most. As we embrace new trends in banking, we remain true to our core mission of serving the underserved.

CONCLUSION AND APPRECIATION

In conclusion, I want to express my deep appreciation to our stakeholders for their unwavering support during these challenging times. Together, we will continue to build a resilient and forward-looking RDB Bank, committed to contributing to the economic recovery and sustainable development of our nation.

In closing, I would like to extend my heartfelt gratitude to our valued customers, whose unwavering trust and loyalty remain the foundation of our success. I also extend my deepest appreciation to the Board of Directors for their guidance, the senior management team for their leadership, and every employee of RDB Bank for their dedication and resilience during a challenging year. Furthermore, our partnerships with the Asian Development Bank and other stakeholders have been instrumental in navigating the economic headwinds, and we are grateful for their support. As we look ahead to 2024, I remain confident that, together, we will continue to overcome challenges, embrace new opportunities, and build a brighter future for all.

W.A.D.S.Gunasinghe
Chairman

General Manager's/CEO's Review

OVERVIEW OF FINANCIAL ACHIEVEMENTS

In 2023, RDB Bank faced significant challenges, yet we managed to achieve noteworthy financial results. Our profit after tax stood at LKR 863 million, marking one of the highest in the bank's history. Additionally, the total contribution to shareholders, including other comprehensive income, reached LKR 1.34 Billion, reflecting our commitment to enhancing shareholder value. Despite a challenging economic environment, we maintained a healthy capital adequacy ratio and saw our total assets grow to nearly LKR 300 billion.

CHALLENGES AND STRATEGIC ADJUSTMENTS

The beginning of 2023 was marked by economic turbulence, following the impacts of COVID-19 and the 2022 economic crisis. As a development bank, we faced a unique challenge as we opted not to significantly increase our lending interest rates, unlike other banks. This decision, coupled with rising deposit costs, put pressure on our financial performance. However, through rigorous cost management and a focus on our core mandate, we were able to maintain profitability and support our customer base.

CORPORATE STRATEGY AND DIGITAL INITIATIVES

Throughout 2023, we remained aligned with our corporate strategy, particularly in supporting SMEs and micro-enterprises. We also advanced several digital initiatives aimed at streamlining our operations and enhancing customer service. The implementation of the Loan Origination System (LOS) and a Collection Management System were key steps in improving our efficiency and service delivery. Additionally, we expanded our presence in the digital payment space by further developing our QR system and initiating the groundwork for a new core banking system.

FOCUS ON WOMEN-LED ENTERPRISES

A significant highlight of 2023 was our partnership with the Asian Development Bank (ADB), which provided us with a 50 million USD loan facility specifically targeted at women-led enterprises and SMEs. This partnership also included technical assistance worth 1 million USD, which we utilized to offer free training programs on financial management and business literacy to women entrepreneurs. This initiative underscores our commitment to empowering women in the business sector and supporting their growth and success.

AGRICULTURAL SECTOR INITIATIVES

Recognizing the importance of the agricultural sector, we have taken steps to develop a virtual marketplace on our website, where buyers and sellers in the agricultural industry can connect. This initiative is designed to support local producers while also allowing international access to Sri Lankan agricultural products. Although our current core banking system presents some limitations, we are confident that once our new system is in place, we will be able to introduce more innovative products tailored to the agricultural sector.

NAVIGATING TURBULENT TIMES

2023 was a year of intense scrutiny and internal challenges, but it was also a year of resilience and teamwork. During the latter half of the year, our management team, including the Chairman and myself, took proactive steps by visiting all provinces and engaging directly with our staff. These efforts, supported by trade unions like the Ceylon Bank Employees Union, were instrumental in rallying the entire organization to navigate through the tough times successfully.

FUTURE OUTLOOK AND STRATEGIC FOCUS

Looking ahead, we are committed to further strengthening our position in the financial industry. Our focus will be on digitalization, the introduction of new products, and exploring potential mergers that align with our long-term strategy. We are also expecting to attract new refinance schemes, which will enable us to offer more competitive lending rates and better serve our rural and underserved communities.

MESSAGE TO STAKEHOLDERS

As we move forward, our priority is to maintain accuracy and integrity in all aspects of our financial reporting and operations. We are optimistic about declaring dividends to our shareholders, subject to regulatory approvals. I invite our clientele, especially those in rural areas, to continue their partnership with us as we strive to offer flexible and concessionary financial products that meet their needs. The future will undoubtedly be challenging, but with a focus on efficiency, productivity, and digitalization, I am confident that RDB Bank will not only survive but thrive in the years to come.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to our valued customers, whose trust and partnership have been pivotal to our achievements in 2023. I also extend my appreciation to our Chairman and the Board of Directors for their strategic guidance and support throughout the year. A heartfelt thank you goes to our dedicated management team and employees, whose hard work and commitment have allowed us to overcome challenges and stay true to our mission. Finally, I would like to acknowledge the vital role of our partners, particularly the Asian Development Bank, for their financial support and collaboration. Together, we remain committed to building a stronger and more inclusive future for all our stakeholders.

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

> Seeds of prosperity; Banking for sustainable regional growth.

Stewardship

Board of Directors

Standing Left to Right
MS. G V A D D Silva, MR. S N B M W Narayana, MR. Mahendra Abeywardena
MR. Dushshantha Wijekoon

Standing Left to Right
MR. Lalith Abeysiriwardena, MR. K A A Karunaratna, MR. Boshan Harshana Dayaratne
MRS. K Eranga Dilrukshi

Board of Directors

Mr. W.A.D.S.Gunasinghe

Chairman

Being an outstanding academic performer, Mr. Gunasinghe holds a Master's Degree in Agriculture from State Agriculture University of Kharkov, Ukraine and MA in Development Studies specializing Regional Development from the Institute of Social Studies, the Hague, the Netherlands. He also holds a Post Graduate Diploma in Development Planning from the University of Colombo. As an officer of Sri Lanka Planning Service, he has served in a number of Ministries, in various posts including a Director of National Planning Department, Additional Director General of Department of National Budget, Additional Secretary to the Ministry of Development Strategies and International Trade, Ministry of National Heritage. At the peak as a Government officer, Mr. Gunasinghe held the post and served as the General Manager of Sri Lanka Railways Department recently. Being a hallowed administrator, he served in multiple institutions, namely, State Printing Corporation, Institute of Apparel and Textile, Tea Research Institute, UDA, Agarapathana Plantations and former Member of the Board of Directors in the Lankaputhra Development Bank. He has been a visiting lecturer at the University of Kelaniya and a resource person for many Government training institutions. Mr. Gunasinghe is an old boy of Ananda College Colombo.

Ms. G.V.A.D. Devika Silva

Non-Independent & Non-Executive Director

Ms. G.V.A.D. Devika Silva was appointed as a Non - Independent & Non - Executive Director on 11th October 2023. Ms. Devika Silva is a fellow member of the Institute of Charted Accountants of Sri Lanka counting over twenty-eight (28) years' experience in the field of Banking & Finance. She started her career in Finance at PricewaterhouseCoopers (PwC), one of the largest professional service networks in the world. Ms. Devika Silva currently holds the position of the Deputy General Manager Treasury and International at National Savings Bank having over 14 years' experience in the Senior Management positions of the Bank.

She holds a Master of Business Administration (Finance) from the University of Colombo and BSc. Business Administration Special Degree from the University of Sri Jayewardenepura. She is a council member of the Association of Professional Bankers (APB) and serves as a Director of the Association of Primary Dealers.

Mr. S.N.B.M.W. Narayana

Non-Independent & Non-Executive Director

Mr. Wickrama Narayana being an experienced banker of 28 years, has been serving in the People's Bank from 1994 and appointed as a Member to the Board of Directors of PSB with effect from 31st January 2023. He is an outstanding expert in SME lending with specialized focus on small business lending, project finance, entrepreneurship development, business revival, and rehabilitation, spans over 12 years.

Mr. Narayana obtained a Bachelor of Science Degree in Business Administration from the University of Sri Jayewardenepura, followed by an MBA in Banking and Finance from the Postgraduate Institute of Management University of Sri Jayewardenepura, and an MSc Degree in Management from the University of Sri Jayewardenepura. Additionally, he is a Fellow Member of the Institute of Bankers of Sri Lanka. He is currently engaged in lecturing at the University of Sri Jayewardenepura, the University of Colombo, the Institute of Bankers of Sri Lanka, and the Center for Banking Studies at the Central Bank of Sri Lanka (CBSL).

Mrs. K. Eranga Dilrukshi

Independent & Non-Executive Director

Mrs. Eranga Dilrukshi having more than 18 years of experience, being an Accountant in Sri Lanka Accountants' Service, is currently serving in the Presidential Secretariat as the Chief Accountant. Mrs. Dilrukshi has a vast experience in Accounting, Procurement, Project Management and Public Financial Management and has served in many Government institutions such as Southern Provincial Council, Ministry of Economic Development, and at the Prime Minister's Office which was prior to her current position. She was appointed as a Member of the Board of Directors of Pradeshiya Sanwardana Bank with effect from 01st February, 2023 and is engaged in her Directorship, while contributing as the Chairperson of Board Audit Committee of PSB.

Mrs. Eranga Dilrukshi obtained a BSc. Business Administration (Special) Degree in 2002 from the University of Sri Jayewardenepura and obtained Masters of Public Management in Project Management from the Sri Lanka Institute of Development Administration.

Mr. Lalith Abeysiriwardena

Independent & Non-Executive Director

Mr. Lalith Abeysiriwardana was appointed initially as an Independent/ Non-Executive Director to the Board of Directors of PSB also known as RDB on 03.01.2020. He has been reappointed as an independent/ non executive Director to the Board of Directors of PSB on 01.02.2023

Mr. Abeysiriwardana has been an Attorney at Law by profession since 1996. He holds a Degree in Bachelor of Law (L.L.B) from University of Colombo. At present he has been evolved to the civil and criminal law practice actively as a Senior Legal Counsel

Mr. Boshan Harshana Dayaratne

Independent & Non-Executive Director

Mr. Boshan Dayaratne has over 30 years of experience in senior management in various industries such as sports, garments, diversified business conglomerates, and education. He holds an MBA in Marketing from University of Colombo, and Bachelor of Commerce (Special) degree, also from the University of Colombo. Mr. Boshan is an Associate Member of the Chartered Institute of Marketing (CIM-UK) and has a Diploma in Sports Science from the Hungarian University of Physical Education.

Currently, he is the Group Director / CEO of CICRA Holdings, a diversified group that specialized in cyber security training, consultation, and software development. He is recognized as a renowned keynote speaker in the field of cybersecurity. Since, 2013 – 2021, he has been invited by the United States Pacific Command to address the Pacific Senior Communicators annual event, which attracts senior military officials from 28 nations in Asia and the Pacific region. His focus has been on responding to cybersecurity and disaster recovery.

Under Boshan's leaderships, CICRA conducts cybersecurity training at the annual Cyber Endeavor Program of the Multinational Communication Interoperability Program (MCIP) of the US Pacific Command.

In 2015, Boshan was appointed as a Board Member on Cyber Security for the US – Malaysia Command and Control Interoperability Board for bilateral discussions.
Boshan is also actively involved in various professional organizations. He serves as a Board Member of the International Chamber of Commerce (ICC- Sri Lanka), the Founder Chair of the Cyber Security Center of Excellence of SLASSCOM, and past Board Member of Sri Lanka Association of Software and Service Companies (SLASSSCOM). He is the immediate past President of the MBA Alumni Association, University of Colombo and past Chairman of the Royal College Union Skills and Career Guidance Centre.

Furthermore, Boshan has shared his knowledge and expertise as a visiting faculty member of the MBA Program of the Management & Finance Faculty of the University of Colombo

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Mr. Dushshantha Wijekoon

Independent & Non Executive Director

Mr. Dushshantha Wijekoon is an Associate Member of the Institute of Bankers of Sri Lanka and is a senior Professional Banker, who retired from the banking service in December 2020. In his career, he has served in two leading banks i.e. Hatton National Bank and Pan Asia Bank, and has gained over 39 years of diversified experience in branch banking, customer service, bank operations, compliance, and Corporate / Retail credit in many mid-sized and larger branches. He has a wealth of knowledge and experience in banking and has played many prominent roles while serving in those banks. In addition, in Pan Asia Bank he has provided leadership for the development and training of staff, reviewing/ introducing processes and compiling the operations manual of the bank, etc.

Mr. K. A. Ajith Karunaratna

Non - Independent & Non - Executive Director

Mr. Ajith Karunaratna was appointed to the Corporate Management cadre in December 2021 and assumed his duties as DGM (Product & Banking Development) and currently he serves as the Deputy General Manager(Branch Credit), Joining the Bank of Ceylon as a management trainee in 2002, he has served over 21 years at Bank of Ceylon in areas of Retail Banking, Trade Finance, Corporate and Premier Banking.

As head of the Premier Banking Branch and the Personal Branch, maintaining relationships with large-scale businesses, major corporations and entities in the country. Mr. Ajith Karunaratna took over the Southern Province as the Assistant General Manager to enrich the performance of the province.

Mr. Ajith Karunaratna holds a B.Sc. In Business Administration (Special) from the University of Sri Jayewardenepura and a Master's in Business Administration from the Wayamba University of Sri Lanka. He is an Associate Member of the Institute of Bankers of Sri Lanka (AIB) and also a Member of the Association of Accounting Technicians (AAT).

Mr. Mahendra Abeywardena

Independent & Non Executive Director

Mr. M.L.D.C. Mahendra Abeywardana is qualified in Human Resource Management and presently holds the position of Director General of Mahaweli Authority. He has obtained Human Resource Management qualifications from University of Wolverhampton, Postgraduate Diploma in Management Studies from Aquinas University College and Marine Geological Survey Technology qualifications from Fujian Institute of Geography. He is a Justice of Peace all Island and bears positions in various institutions. Some of them are Chairman of Karapitiya Hospital Management Committee, Committee Member of Ministry of Health & Nutrition, Committee Member of Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs and Director of Surangani Voluntary Services.

Corporate Management

Mr. P. S. Edirisuriya
General Manager/CEO (Cover up) & 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 33 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

Mr. Kumara has over 32 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 a Master of Arts from University of Kelaniya. Also passed the Intermediate Examination from the Institute of Bankers of Sri Lanka.

Mr. B. G. W. A. Kumara
Actg. Deputy General Manager - Credit Special Project & Policy Implementation

Mr. Athula Kumara has over 32 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 Western Provinces. Mr. Athula Kumara graduated from the University of Sri Jayewardanepura, Sri Lanka with a Bachelor of Science Special Degree in Business Administration in 1992.

He has successfully completed Master of Arts Degree from the University of Kelaniya. He is an Associate Member of the Institute of Bankers of Sri Lanka.

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

Mr. Krishantha Sanjeewa Serasinghe, has more than 22 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 Program 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 worked as Deputy General Manager- HRD of National Savings Bank.

Dr. A. S. K. B. Rathnayake
Actg. Chief Information Officer

Dr. Ajantha Rathnayake is an accomplished IT professional with over 32 years of experience both locally and internationally.

He joined Regional Development Bank (RDB) in February 2015. Dr. Rathnayake holds a B.Sc. in Management Information Systems (MIS) from the National University of Ireland, a Master of Business Administration (MBA) from Leeds Metropolitan University in England, and a Ph.D. from Aldersgate College, Philippines.

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 BCom Special Degree with a Second Upper Division from the University of Kelaniya.

He possesses more than 31 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.

Mr. G. M. B. C. De Silva
Actg.Deputy General Manager - Operations & Business Support Services

Mr. G. M. B. C. De Silva graduated with a Commerce Degree from Sri Jayewardenepura, Sri Lanka and also possesses Master of Business Administration from the University of Wayamba in 2018. Mr. Silva is a fellow member of The Institute of Bankers of Sri Lanka. He has successfully completed the Micro Finance Course conducted by the Open University of Sri Lanka. He has joined the Bank (previously sabaragamuwa Regional Rural Development Bank/RRDB) in year 1987 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 Province. He has over 36 years of experience in the banking sector.

Regional General Managers

Mr. M. M. M. S. Ananda
Regional General Manager - North Central Province
Associate Membership of Institute of Bankers of Sri Lanka (AIB)

Mr.P H Wijethilaka
Regional General Manager - Sabaragamuwa Province
MBA National School of Business Management (NSBM)
B.Sc (State Mgt.& Valuation) Degree - University of Sri Jayewardenepura
Associate Membership of Institute of Bankers of Sri Lanka (AIB)

Mr K C D Dharmapriya
Regional General Manager - Central Province
BA Degree - University of Peradeniya
Senior Associate Member of Institute of Bankers of Sri Lanka

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

Mr.C L C Muthubanda
Regional General Manager – Eastern Province
B.Sc. Business Administration (Special) Degree - University of Sri Jayewardenepura
Fellow Membership of Institute of Bankers of Sri Lanka (FIB)

Mr K B Wijerathna
Regional General Manager - Uva 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

Mrs. H M N M Herath
Regional General Manager- Western Province

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

Mr. M.A Gnanarathna.
Regional General Manager - Southern Province

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

Assistant General Managers / Head of Divisions.

Mrs.G B M T K Wijerathna
Assistant General Manager - Compliance
BA (Special) Degree - University of Peradeniya
IABF - Institute of Bankers of Sri Lanka

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

Mr W P M K Dasantha
Assistant General Manager - Engineering
B.Sc. (Engineering.) - Honours. - University of Moratuwa
PGDip. in Technology (Construction Management)- Open University of Sri Lanka
Chartered Engineer - MIE (SL)
Associate Member of Society of Structural Engineer (SL)
MBA - PIM (University of Sri Jayewardenepura)
International Professional Engineer (Sri Lanka)
Chartered Member - Institute of Logistic & Transport (SL)
Chartered Member of the Chartered Institute of Logistic & Transport (UK)
Member of Institute of Chartered Professional Managers of SL
Chartered Professional Engineer and Member of Engineers Australia
Corporate Member and Chartered Engineer of Institution of Engineers (SL)

Mrs R M T Rajapaksha
Board Secretary
Bachelor LLB - University of Colombo
PGD-HR University of Colombo
Attorney at Law
Notary Public
Company Secretary

Assistant General Managers

Mr D S P C Handunhewa
Assistant General Manager - Operations & Banking Support Services
Diploma in Micro Finance - Institute of Bankers of Sri Lanka
CBF - Institute of Bankers of Sri Lanka

Mr P S T Ranathunga
Assistant General Manager - Credit
BA (Special) Degree - University of Colombo
MA University of Sri Jayewardenepura

Mr.H M P A G U Bandara
Assistant General Manager - Treasury
Associate Membership of Institute of Bankers of Sri Lanka (AIB)
PGDip. in Management - University of Rajarata

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

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

Mr. K.D.H.A. De Silva
Assistant General Manager - Recovery
Higher National Diploma in Accountancy
DBF - Institute of Bankers of Sri Lanka
PGEXDip. in Bank Management - IBSL
MBA - Asia e University, Malaysia
National Certificate in Draftsmanship - Technical Collage - Sri Lanka
Fellow Membership of Institute of Bankers of Sri Lanka (FIB)

Mrs. P.E.D.S. Perera
Assistant General Manager - Human Recourses Development & Services
Associate Membership of Institute of Bankers of Sri Lanka (AIB)
Post Graduate Executive Diploma in Bank Management - IBSL

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

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)

Mr. W.U.S. Abeysinghe
Assistant General Manager - Sabaragamuwa Province
B.Sc. - Public Administration (Special)
Degree - University of Sri Jayewardenepura

Mr. E.P.Ranjith Kumara
Assistant General Manager - Internal Audit
B.Com (Special) Degree - University of Kelaniya
IABF - Institute of Bankers of Sri Lanka

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

"Seeds of prosperity; Banking for sustainable regional growth."

Management Discussion & Analysis

Financial Review

As a financial institution dedicated to Development Finance, Regional Development Bank (RDB) is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programs on 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 island-wide branch network of 272 branches.

Profitability

Profits after Tax (PAT) of the Bank have decreased slightly by 36.01% compared to the previous year. In the year 2023, operating profit increased to LKR. 3,508 Mn, which is 75.58% more than the operating profit of LKR. 1,998 Mn recorded in 2022. Return on Assets (ROA) before tax has recorded as 0.30% that stood at 0.47% in 2022. Also, the Bank reached total assets of LKR. 299.71 Bn as of 31st December 2023 which recorded 5.02% growth over the previous year.

Profitability Over the Budget

Item	Actual LKR. 000	Budgeted LKR. 000	Change
Gross Income	47,586,935	58,346,988	-18.44%
Operating Profits	3,508,267	5,267,822	-33.40%
Profit After Tax	863,518	1,074,283	-19.62%

RDB's Quarterly Financial Performance

RDB's quarterly financial performance has improved slightly during the year 2023.

Item	2023 - LKR.000				2022 - LKR .000
	31-Dec	30-Sep	30-Jun	31-Mar	31 - Dec
Net Operating Income	15,724,850	10,693,254	6,714,372	3,046,130	13,355,357
Profit Before Tax	3,508,266	681,774	(295,429)	(346,348)	359,115
Profit /(Loss)After Tax	863,517	517,064	(529,325)	(346,348)	1,349,394
Loans & Receivables	213,962,635	196,010,203	198,504,264	200,350,660	198,008,145
Customer Deposits	226,079,615	221,181,438	217,876,920	217,033,165	210,301,323
Total Assets	299,717,438	298,544,043	290,044,023	289,313,999	285,395,150
Shareholder's Fund	17,865,722	17,043,191	15,996,802	15,275,916	16,226,127

Income

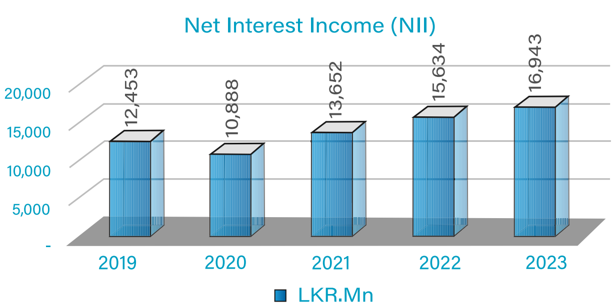
The total income of the Bank significantly increased by 31.45% to LKR. 47.58 Bn from LKR. 36.20 Bn. The Bank achieved a total income higher than the previous financial year even in the challenging economic condition in the country.

Composition of Total Income

Item	2023 LKR. 000	2022 LKR. 000	Change
Interest Income	46,232,791	35,273,433	31.07%
Fee and Commission Income	1,572,076	806,548	94.91%
Other Operating Income	(217,933)	122,768	-277.52%
Total Income	47,586,935	36,202,749	31.45%

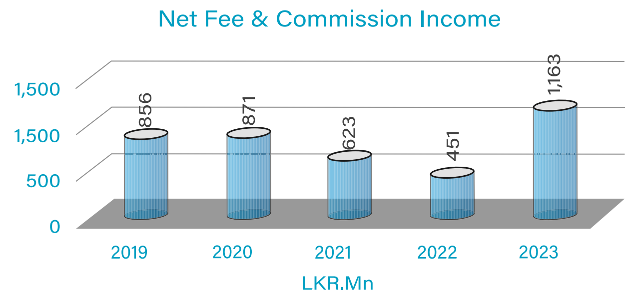
Net Interest Income (NII)

Net interest income increased by 8.37% in the financial year of 2023, and it increased from LKR. 15,634 Mn to LKR. 16,943 Mn.



Net Fee and Commission Income

During the financial year 2023, Net Fee and Commission Income increased by 157.59%. It increased to LKR.1,163 Mn compared to the results of LKR.451 Mn in financial year of 2022.



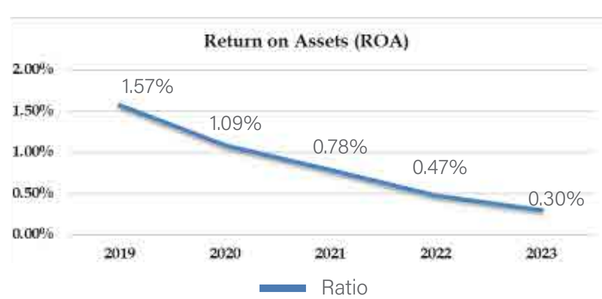
Taxation

Item	2023 LKR. 000	2022 LKR. 000	Change
VAT on Financial Services	2,066,232	1,561,475	32.33%
Social Security Contribution Levy	258,613	77,526	233.58%
Income tax expense /(reversal)	319,903	(990,279)	-132.30%
Total Tax Expense	2,644,748	648,722	307.69%

During the financial year 2023, the Bank has incurred Value Added Tax on financial, amounting to LKR. 2,066 Mn and Income Tax expenses to LKR. 319 Mn. A total of LKR. 2,644 Mn has been incurred during the year as taxes.

Return on Assets (ROA)

The Bank has recorded ROA (operating profits) of 0.30% for the financial year 2023 despite of 0.47% recorded for the financial year 2022.

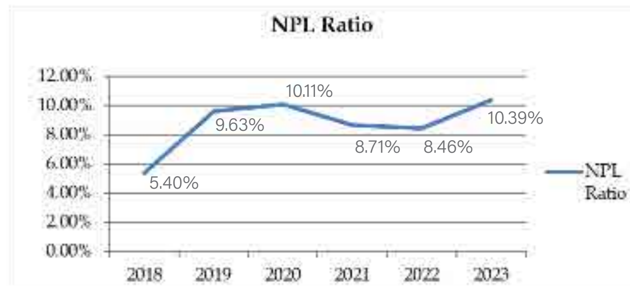


Return on Equity (ROE)

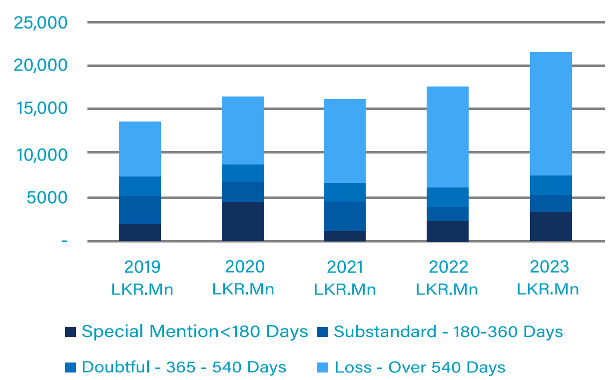
The Bank has recorded ROE of 10.48% for the financial year 2023 despite 8.54% recorded for the financial year 2022.

Assets Quality

The Non-Performing Loan Ratio (NPL) of the Bank slightly increased to 10.39% as of 31 December 2023 irrespective of 8.46% at the end of the 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.

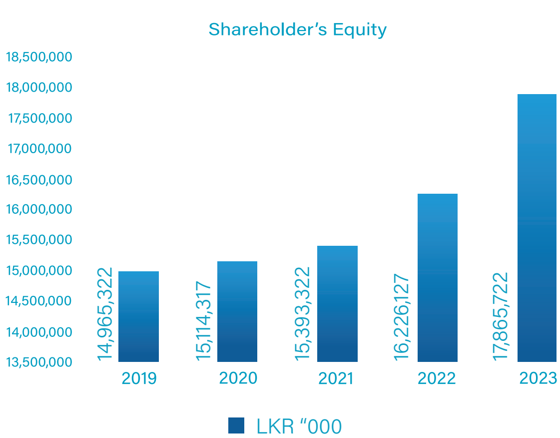


Total Assets

The Bank recorded a growth of 5.02% in total assets as at the end of the financial year 2023, over the corresponding year. Accordingly, the total assets base increased from LKR.285 Bn to LKR.299 Bn during the financial year.

Total Shareholders' Equity

Total shareholders' equity of the Bank arrived in LKR. 17,865 Mn in the year 2023 against LKR. 16,226 Mn recorded in the year 2022.



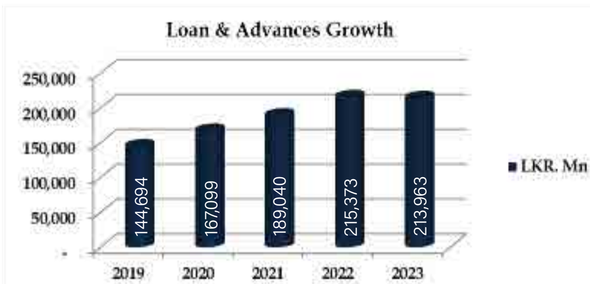
Liquidity

Item	2023	2022
Statutory Liquid Assets Ratio (SLAR)	38.73%	27.83%

The Bank has consistently maintained its liquidity levels well above the regulatory requirements during the year 2023.

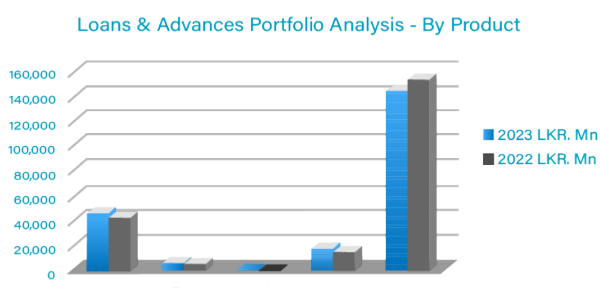
Customer and Relationship Review

Loans & Advances Growth



Loans & Advances Portfolio Analysis – By Product

Category	2023 LKR. Mn	2022 LKR. Mn
Pawning	45,600	42,234
Staff Loans	5,864	5,501
Leasing	897	1,398
Short Term	17,707	13,717
Long – Term	143,894	152,523
Total	213,963	215,373

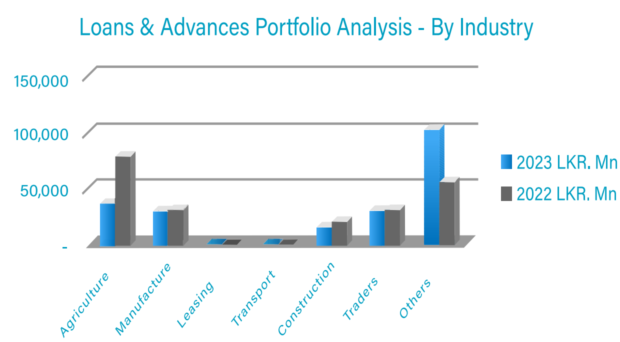


RECOVERIES

During the year 2023, special attention was given by the Bank to manage its Non-Performing Loan (NPL) portfolio which was around 10.39% from the total portfolio at the end of 2023. As a result of the special efforts made by the bank, the bank was able to manage the stress attentively that arose due to high volatility of the country's economic situation. Hence, the bank managed to maintain the NPL ratio at 10.39% as of 31 December 2023 whilst achieving a slight growth of the credit portfolio.

Loans & Advances Portfolio Analysis - By Industry

Category	2023 LKR. Mn	2022 LKR. Mn
Agriculture and fishing	36,009	77,426
Manufacturing	29,348	30,675
Leasing	897	1,382
Transport	55	76
Construction / Housing	15,449	19,646
Traders	30,321	30,800
Consumptions/ Against Deposit/ Staff/Tourism	101,884	55,368
Total	**213,963**	**215,373**



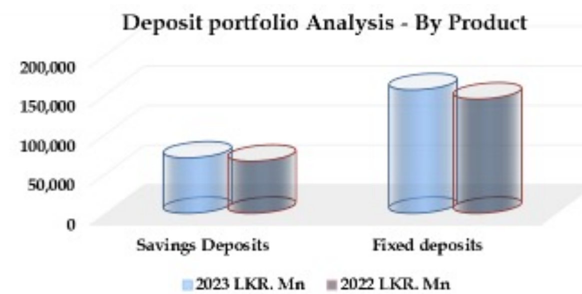
Non-Performing Category	2023 LKR. Mn	2022 LKR. Mn
Special Mention	3,394	2,471
Substandard	1,956	1,501
Doubtful	2,202	2,183
Loss	14,071	11,662
Total non-performing	21,624	17,817
NPL Ratio (%)	10.39%	8.46%

DEPOSIT GROWTH

Deposit Base of the Bank increased to LKR. 226 Bn, that represents a 7.50% growth over the previous year. The major contributor to this was fixed deposits, which grew by 8.01% whilst saving deposits increased by 6.40%.

DEPOSIT MIX

Type of Deposit	2023 LKR. Mn	2022 LKR. Mn
Savings deposits	70,065	65,852
Fixed deposits	156,014	144,449
Total	226,080	210,301



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, and service sectors of the economy thereby enhancing the contributions made by these sectors towards national income. One of the noteworthy features of the Bank is its strong presence in the rural areas, which has been continuing from the inception of Regional Rural Development Banks in 1985.

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 2023. Commission details are mentioned below.

2023-COMMISSION RECEIVED(INSTITUTE VICE)			
SE:NO:	INSURANCE COMPANY	FROM:01.01.2023 UP TO:31.12.2023	%
1	SRILANKA(LIFE)	2,583.84	0.01
2	SRILANKA(GENARAL)	1,182,327.80	6.38
3	SANASA(LIFE)	3,497,330.75	18.88
4	SANASA(GENARAL)	347,608.34	1.88
5	CO-OP	1,920,667.21	10.37
6	CEYLINCO(LIFE)	204,120.90	1.10
7	CEYLINCO(GENARAL)	1,525,527.80	8.24
8	ALLIANZ(LIFE)	29,304.55	0.16
9	ALLIANZ(GENARAL)	377,999.38	2.04
10	SOFTLOGIC(LIFE)	6,428,874.30	34.70
11	AGRERIAN	0.00	0.00
12	PEOPLES	1,034,746.72	5.59
13	LOLC(LIFE)	336,265.40	1.82
14	LOLC(GENARAL)	872,875.72	4.71
15	JANASHAKTHI(LIFE)	127,760.45	0.69
16	FAIRFIRST	192,082.89	1.04
17	ARPICO	444,551.29	2.40
	TOTAL	18,524,627.34	100.00

Meets New Technology.

Loans Origination System (LOS) has been introduced by the bank to enrich the credit process & entertain the existing clients and welcome new clients by supplying effective service on lending through the automated system.

Refinance & Interest Subsidy Loan Schemes.

There are several 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 the SME sector.

SAUBHAGYA	KAPRUKA AYO-JANA	Moragahakanda
SMELoC We fi	KAPRUKA JAYAI-SURA	SAPP
SMELoC RF	SMILE 111 RF	Mahaweli saviya
SMELoC ERF	SEPI PHASE 11	NCRCS
SMELoC Tea & JFPR	DAD	STARR
PAMP RF	KRUSHI SHAKTHI	

Collaborating with ADB.

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

Under the SRDBP ADB funds to enhance and enrich RDB while funding to SME sector lending. In SMELoC additional financing Phase III derives three categories as covid 19 emergency response facilities for projects that are affected by the pandemic, small tea holder development project and SME sector development project.

Strengthening the Regional Development Bank Project (SRDBP)

As part of its broader support for the Sri Lankan economy, the Asian Development Bank (ADB) injected USD 50 million of Tier II eligible capital into the RDB by way of a 12.75-year sovereign loan guaranteed by the Government of Sri Lanka (GOSL). This credit facility was combined with a technical facility to support the Regional Development Bank in meeting the Basel III capital requirement while further assisting the bank's capacity-building process. As a condition, the received funds were directed to provide long-term financing that directly utilized USD 50 million of loans to micro and small enterprises. The agreement was signed on June 14, 2019, in the presence of both parties (ADB and RDB), and the project was successfully completed on December 31, 2023.

The total project outputs were as follows:

RDB's operations expanded: Project Management unit, Relaunched Women based Deposit Mobilization Programme

RDB's operational capacity strengthened: Updated Risk Management Policy & Credit Policy, LOS implementation,
Credit Scoring system, Credit appraisal Training, ESMS introduction

The capacity of MSMEs access the financial services enhanced: Training 500 WEs - business development, training 60 number of internal staff as TOTs (Train of Trainers)

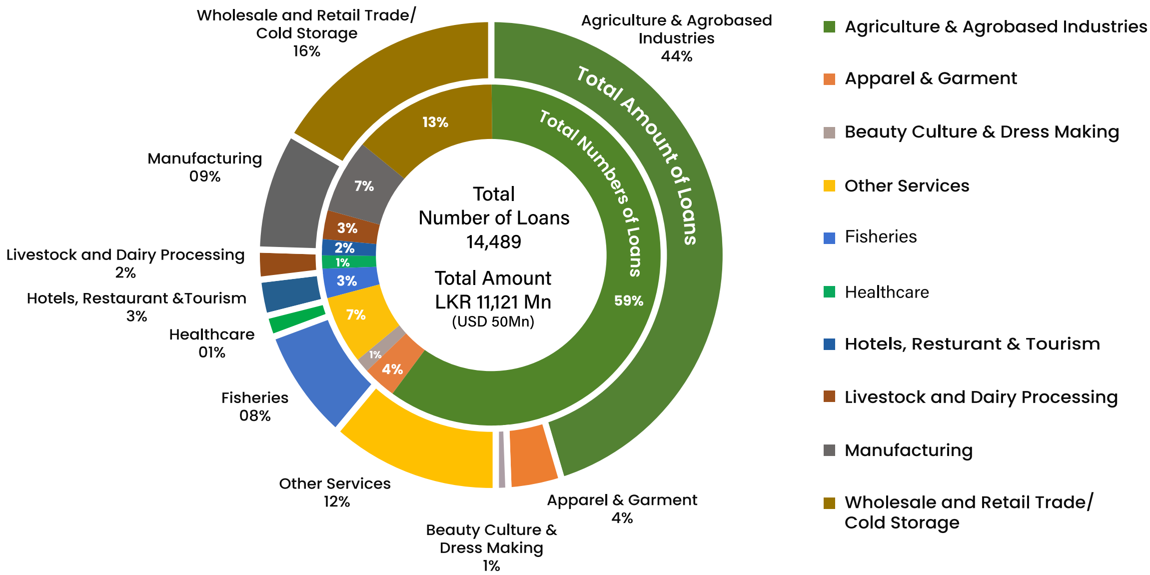


Figure 1: The loan facility (USD 50 million) disbursement chart with respect to sectors

Table 1 : Strengthening the Regional Development Bank Project (SRDBP) details as of 31st of December 2023.

Description	Number of Loans	Value (LKR.Mn.)
Total MSME Loans granted using ADB loan	14,489	11,121
Total granted loans for Women-led businesses using ADB loan	4,603	2,669

Environmental & Social Management System (ESMS)

With this project implementation, an Environmental and Social Management System (ESMS) was adhered to with the aim of advancing the project evaluation process. For this task, an Environmental and Social Management Unit (ESMU) was established within the bank, which acts as the regulatory body for the E&S screening and evaluation of the financed projects. At the inception stage, this E&S compliance was applied to SRDB project loans, with the goal of gradually adapting to each loan product.

This manual constitutes the Bank's ESMS, which matches similar procedures laid down by the International Finance Corporation (IFC) for Financial Intermediaries (FIs). This mechanism ensures that the RDB's activities are in compliance with its domestic as well as the Donor Financial Institutes (DFIs) environmental and social standards.
RDB will soon be prepared to set up an independent sustainability unit to direct the bank's internal and external operations toward sustainability.

RDB Leasing.

RDB leasing has been operating quite successfully in 2023. All branches tend to execute their strategies to enhance the leasing portfolio of their branches very successfully.
Leasing Portfolio as of 31.12.2023 is 1.1 bn.

Recoveries.

In 2023, PSB has been inaugurated for the preliminary function of the call center process of the Collection Management System (CMS) in Western Province and work out execute to expand call centers for all the other provinces at the end of 2024, to control the loans which are being under performing in Stage 2 level. According to the impact of the prevailing macro-economic circumstances, most of our customers have been adversely affected by their repayment capacity of the loans. Therefore, the recovery department has been introduced interest concession programs to its borrowers and carried out short-term recovery action plan to control & mitigate the non-performing level of the bank. As a result, PSB could be managed the Stage III Ratio is 10.4% as of the end of year 2023.

Information Technology Review

In 2023, the Information Technology (IT) department of the Bank played a pivotal role in driving innovation and enhancing operational efficiency to elevate customer satisfaction. By strategically implementing advanced systems and facilities, the IT team successfully modernized infrastructure strengthened security measures, and expanded service offerings, all aimed at delivering exceptional banking experiences to our customers.

One of the Bank's major digital initiatives for 2023 was the introduction of VISA Debit Cards for its customers. This initiative responded to evolving customer needs by offering enhanced convenience and accessibility. VISA Debit Cards empower customers to conduct secure transactions, enriching their banking experience and promoting greater financial freedom.

To further enhance customer service at ATMs, the Bank migrated its ATM services from LankaClear to Novus Technologies. This migration marked a significant improvement in service delivery. By leveraging the capabilities of the Novus platform, ATM transactions are now more reliable, faster, and capable of supporting a broader range of services, further enriching the customer experience.

Recognizing the importance of effective communication, the Bank upgraded its SMS gateway features to ensure timely and relevant communication with customers. This enhancement enables the delivery of prompt notifications, alerts, and updates, improving customer engagement and transparency.

Additionally, 2023 marked the successful completion of the initial phase (retail credit) of the Loan Origination System (LOS) and the Collective Management System (CMS). The implementation of these systems has streamlined loan processing and management, enabling faster approvals and more precise risk assessments. These advancements empower staff to provide tailored financial solutions, significantly enhancing customer satisfaction.

The Anti-Money Laundering (AML) system progressed well, with the first phase now operational. The remaining phases are expected to be completed soon following the ongoing User Acceptance Testing (UAT). The AML system strengthens the Bank's ability to detect and prevent money laundering activities, reinforcing regulatory compliance and safeguarding institutional integrity. Feedback from the UAT phase will be instrumental in refining the system to meet diverse user and regulatory requirements.

Cybersecurity remains a top priority for the Bank. In 2023, advanced network security solutions were implemented, including the deployment of the SD-WAN solution across all branch locations. This achievement underscores the Bank's commitment to modernizing and optimizing network infrastructure. The SD-WAN deployment brings numerous benefits, including enhanced network performance, improved reliability, reduced operational costs, and superior customer service. Notably, RDB Bank is the first in the banking sector to successfully implement the SD-WAN solution across its entire branch network.

In conclusion, the IT department of RDB Bank has been instrumental in driving innovation and enhancing customer satisfaction through strategic system implementations and advancements. As we continue to embrace cutting-edge technologies and best practices, we remain committed to delivering exceptional banking experiences that exceed the expectations of our valued customers.

Marketing Review

Products and Services

RDB Kekulu – Minor Savings Account

RDB Kekulu account is exclusively designed for children below 14 years of age with the aim of inculcating a savings habit from a tender age.

RDB 4 Teen Plus Account

RDB 4 Teen Plus Account has been specially designed for teenagers of 14 years and above to inculcate savings habits among teenage community.

RDB Liya Saviya – Women Savings Account

This account is introduced to courageous women in Sri Lanka. In addition to the financial facilities, bank provides consulting services for women who contribute to the country's economy through self-employment.

RDB Victory Account

RDB Victory Account is introduced as a special savings account where a higher interest can be obtained while making withdrawals. As special benefits, account holders are entitled to obtain bonus interest and the loan of ten times the account balance maintained.

RDB New Life Pension Plan

RDB New Life Pension Plan was introduced as a special savings account where a higher interest can be obtained. The account pays a premium pension benefit when the account holder reaches age 55 or 60. It will be paid until the account holder's demise.

RDB Uththama Senior Citizen's Account

RDB Uththama Senior Citizen's Account has been introduced for people above 55 years of age. Account holders have the opportunity to pay their utility bills without service charges and are entitled to free medical check-ups. Pensioners with RDB Uththama Senior Citizen's Account are entitled for "RDB Detusavi" credit facility.

RDB Investment Account

This is a general investment account introduced for customers who obtaining credit facilities. Special features of the product are offering attractive rate of interest on deposits and special loan scheme customized for the target segment.

RDB Jaya Nidhana Savings Certificate

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/- and Rs.1,000,000/- at a maturity.

RDB Fixed Deposits

RDB fixed deposits are identified as a popular mode of investment among individual and corporate customers as well. FDs are available at RDB for periods of 1, 2, 3, 4, 6 and 9 months as well as 1-5 years. 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 competitive interest rates to attract medium and long term deposits with a purpose of increasing the deposit base of the bank. Accordingly, RDB introduced 100 Days, 400 Days, 6 Month , 10 Months, one, two and three years fixed deposits under the umbrella of RDB Max considering the financial market situation and competition.

RDB Dorin Dora – Convenient Door Step Banking Service

This is the flagship service of RDB as the pioneer of doorstep banking service providers in Sri Lanka. This system operates through dedicated service providers, who on daily basis visit the business premises and the residences in the command areas of respective branches.

RDB LIYA SAVIYA PLUS - WOMEN INVESTMENT SAVING ACCOUNT

RDB Liya Saviya Plus is a five year investment account 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.

The account holders are eligible to enroll "Diri Abhimani - Best Women Entrepreneur Competition".

Seilama.lk

Seilama.lk is a digital platform introduced to showcase the products and services of RDB entrepreneurs online. By introducing this digital platform to buyers, rural farmers /producers and delivery channels, they can actively participate to the supply chain of the country.

RDB Leasing

"RDB Leasing" has been introduced 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.

Warehouse Facilities

Five warehouses are being managed by RDB in Upuldeniya, Murunkan, Buttala, Kilinochchiya and Medirigiriya. Farmers in the villages 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 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 Ran Sarana

"RDB Ran Sarana" is designed to obtain 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.

RDB Bancassurance

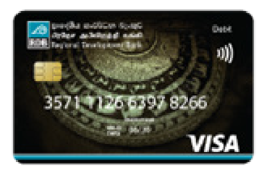
RDB facilitates its customers to choose tailor made insurance products or insurance benefits from wide range of insurance companies through RDB Bancassurance Unit.

New Product Development

RDB Quick Draft Loan

RDB Quick Draft Loan is designed to provide financial assistance for investment and working capital requirements of the business community. Individuals engaged in SME businesses and self employment projects are able to operate their businesses smoothly due to the tailor made repayment period provided for the loan facility.

RDB Visa Debit Card



RDB launched RDB Visa Debit Card to its customers to meet their daily needs smartly and effortlessly. This will encourage customers to switch to digital payment mode without multiple visits to ATMs/branches.

Sahana Society Savings Account

RDB has repackaged its "Sahana Savings Account" as "Sahana Society Savings Account" with attractive benefits to reach societies formed across the country. This will provide benefits for societies as well as the members of the societies.

Society and Environmental Review

Corporate Social Responsibility –CSR

RDB Diri Abhimani Programme

RDB has successfully completed the RDB Diri Abhimani 2022 program by crowning the Provincial and National level winners selected through the evaluation process to select the Best Women Entrepreneur. RDB has re-launched the Diri Abhimani 2023 program on 30th March 2023 to empower the efforts and commitment of women entrepreneurs in Sri Lanka. The program guides RDB women entrepreneurs to achieve their dreams in the business world as well as in their personal lives through guidance, consulting services and training.

Employee Review

In alignment with the Bank's vision as the Development Banker to the Nation, the HR department strives to cultivate and maintain a highly motivated, dynamic, and empowered workforce that drives corporate excellence. Our commitment lies in fulfilling the needs of ideal human capital and promoting employee well-being through a strategically integrated approach to talent acquisition, development, and engagement. Leveraging the best HR tools, policies, practices, and processes, we aim to foster an environment where employees play a pivotal role in adding value to corporate objectives, ultimately helping them achieve their career aspirations.

Financial KPI with regard to HR for 2019 – 2023

KPIs	2019	2020	2021	2022	2023
Total Operating Profit (Rs. Mn.)	2,960	3,164	2,786	3,721	3,555
Total Income (Rs. Mn.)	27,508	24,210	24,272	35,918	47,586
Loan Portfolio (Rs. Mn.)	144,694	164,771	187,437	210,564	215,296
Deposit Portfolio (Rs. Mn.)	149,600	169,264	184,391	201,545	226,080
Total Headcount (FTE)	2,735	2,660	2,600	2531	2721
Revenue per FTE	10.06	9.10	9.34	14.19	17.49
Profit per FTE	1.08	1.19	1.07	1.47	1.31
Deposit Portfolio per FTE	52.90	61.94	70.92	83.19	83.09
Loan portfolio per FTE	54.70	63.63	72.09	79.63	79.12

(FTE=Full-Time-Employee)

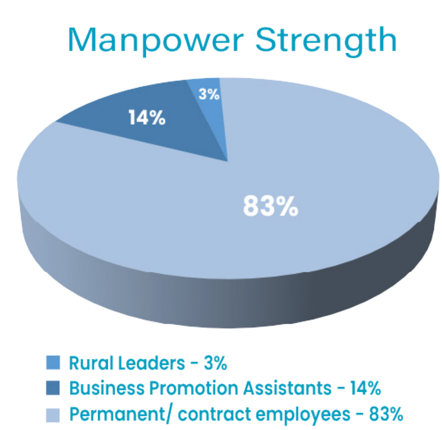
Manpower Strength

The bank's workforce comprises of employees deployed for both permanent and contract bases. Additionally, the bank employs Business Promotion Assistants (converted to fixed-term contracts) and Rural Leaders (associated with the microfinance system) to strengthen our bank services.

In our commitment to national development, we contribute by providing training programs to students mandated to undergo training for durations ranging from 6 to 12 months. These programs are requested by universities, technical colleges, recognized professional institutions, and eligible school leavers aiming for university entrance. These diverse categories of individuals offer valuable contributions to the bank's performance.

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

Manpower Type	Headcount	
	2022	2023
Permanent/ contract employees	2531	2721
Business Promotion Assistants	445	470
Rural Leaders	216	88
Total	3192	3279



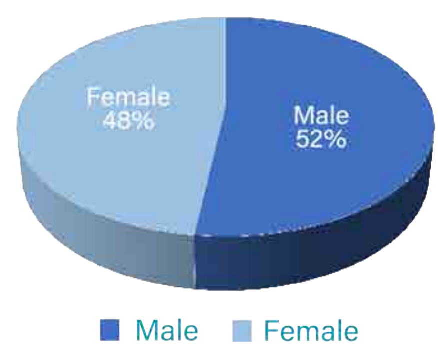
Headcount distribution by management level is given below. It shows the distribution of employees across various management levels within the bank, comparing the headcounts in different managerial positions.

Management Level	Headcount Distribution	
	2022	2023
Corporate Management	08	04
Senior Management	30	29
Executive Management	127	126
Executives	1073	1003
Clerical and Allied	1176	1437
Other Grades	117	122
Total	**2531**	**2721**

Bank provides equal employment opportunities for both male and female. The gender composition within the bank's workforce highlighting the bank's commitment to gender equality and diversity was continued to maintain in 2023 as follows.

Gender	2022		2023	
	Headcount	%	Headcount	%
Male	1409	55.67	1422	52.26
Female	1122	44.33	1299	47.74
Total	2531	100.00	2721	100.00

Gender Composition



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

Age Profile

Age Category	Headcount	%
Below 21 years	-	-
21 – 30 years	507	18.63
31 – 40 years	973	35.76
41 – 50 years	428	15.73
51 – 55 years	456	16.76
Above 55 years	357	13.12
Total	2721	100.00

Experience Profile

The following experience profile depicts the tenure of employees, ranging from those with extensive experience to newcomers, providing a comprehensive overview of the workforce's collective expertise and potential skill gaps.

Experience Category	Headcount	%
More than 30 years	561	20.62
20 – 29 years	293	10.77
10 – 19 years	974	35.80
5 – 9 years	169	06.21
Less than 5 years	724	26.60
Total	2721	100.00

Career Advancement

The Bank is fully committed to the continuous development of its employees, offering training programs aimed at enhancing staff attitudes, expanding knowledge, and providing practical, hands-on learning in banking operations. These initiatives focus on building leadership capabilities and, in particular, strengthening customer service excellence. Each year, a substantial portion of the Bank's budget is allocated to support these essential development activities. During the year, 95 programs with an aggregate of 29, 368 working hours of training were conducted for 3,670 participants. Total investment for training during the year was Rs. 6.58Mn.

Talent Attraction

In 2023, the Bank implemented a competency-based approach to talent attraction, bringing new recruitment into the permanent cadre. Through this process, Banking Assistants and Management Trainees were recruited to strengthen the Bank's talent pool.

HR Board Sub-Committees

Aligned with corporate governance practices and the Directions of the Central Bank of Sri Lanka (CBSL), 02 separate sub committees were formed as Board Human Resources and Remuneration Committee (BHRRC) and Board Nomination Committee (BNC).

The Board Secretary served as Secretary to both committees. In 2023, the Board Nomination Committee convened four (04) times, while the Board Human Resources and Remuneration Committee held six (06) meetings.

Special Events

Following RDB branches relocated to provide convenient, flexible and efficient banking service to customers

Hikkaduwa Branch - 10th April 2023

Vavuniya Branch - 29th May 2023

Dambulla Branch - 4th July 2023

Sewanagala Branch – 28th August 2023

Puttalam Branch - 16th October 2023

Hambantota Branch 23rd October 2023

Polonnaruwa District Office - 8th May 2023

Polonnaruwa District Office was moved to a precious location to provide prompt service to customers and streamline the operations.

Deposit Mobilization Campaigns to Boost Minor Accounts

RDB branches conducted special programs in pre-schools in selected areas to inculcate savings habit among minors from their little age

International Women's Day Program

All RDB branches organized events to commemorate International Women's Day with their women entrepreneurs as well as the customers and staff. These events included awareness and training programs and loan granting programmes to strengthen women entrepreneurs. In addition, during the month of March RDB has offered valuable gifts for Liya Saviya Plus Account holders.

The Grand Programme was conducted at the Center for Banking Studies at Rajagiriya on 30th March 2023 with the participation of the management, staff and the customers.

In parallel to the launching of "Diri Abhimani " Women Entrepreneur Competition 2023, following special events held at said occasion.

- Awarded prizes for National and Provincial Level Winners of the Diri Abhimani 2022 Programme.
- Awareness programmes on entrepreneurship
- Granted loan facilities to women entrepreneurs

"ස්වර්ණ රන් හඳ රැදි පැය" Program

RDB has joined hands with Swarnawahini and Run FM to conduct "ස්වර්ණ රන් හඳ රැදි පැය" Programmes at 10 locations to reach customers through an interactive promotional campaigns.

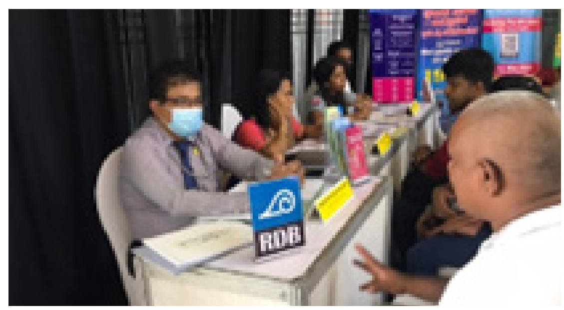
Sinhala & Tamil New Year Celebrations 2023

All RDB branches celebrated Sinhala & Tamil new year with its valuable customers on 17th April 2023. 'පැයෙන් පැයට බඩු මල්ල" program has been conducted as previous years to distribute bag full of daily essentials to the winners of that day in parallel to Sinhala & Tamil New Year Celebrations.

National Industry Exhibition 2023 – "Industry 2023"

RDB participated in the One Stop Shop program organized by the Industrial Development Board in parallel to the "Industry 2023" exhibition at BMICH to strengthen local industries aiming to create an export central economy.

Furthermore, RDB participated to the Industry 2023 Jaffna Edition and Kandy Edition to identify new business ventures and the entrepreneurs.



LankaPay Technnovation Awards 2023.

RDB was awarded a gold award for Best LankaPay Card Implementer of the Year and a Merit Award for Best Common ATM Enabler of the Year at the LankaPay Technnovation Awards 2023 held at the Shangri- La Hotel, Colombo.

Seminars for Grade 5 Scholarship Examination

RDB conducted seminars for students sitting for grade 5 Scholarship Examination in collaboration with Mawbima News Paper.

MOU with Industrial Development Board (IDB)

RDB was selected by IDB as the official bank to provide loans from the Industrial Development Fund as per the MOU signed by RDB & IDB. Accordingly, RDB provides financial assistance under the Industry Loan Facility for selected small and medium scale entrepreneurs all around the country.

World Children's Day 2023

RDB organized various events in its branch network to commemorate "World Children's Day". In parallel to the "World Children's Day", RDB introduced Golden Voucher for new depositors to double the deposit balance of RDB Kekulu Account.

RDB Visa Debit Card

RDB introduced RDB Visa Debit Card to expand existing clientele and enter into new market segments. Accordingly, RDB customers can enjoy the convenience of secure payment directly from the bank account.

Risk Management Statement

RDB has passed another challenging year, In the first half of the year 2023 the micro and macro economics factors continue the more unstable and exhibited signs of resilience and recovery in the second part of the year. Due to the economic crisis, as a result of these changes and instability, foreign reserves and foreign debt became an unexpected and unpredictable level. Moreover, staggering decade-high inflation affected businesses and individuals. Furthermore, the Central Bank of Sri Lanka's monetary policy tightening directly impacted banking activities. These policies and policy rates directly impacted many banking sector operations.

The economic crisis, driven in part by depleted foreign reserves and increasing external debt, reached an unprecedented severity. Additionally, decade-high inflation severely affected both businesses and individuals, as soaring prices limited investments and spending. The Central Bank of Sri Lanka's monetary policy tightening significantly influenced banking activities, with the substantial hike in policy rates reducing the approval of new loans due to borrowers' diminishing ability to repay debt.

Due to the unstable operating and financial 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 and introduced the new internal control systems as well.

At RDB, effective risk management is fundamental to our operations and the achievement of our strategic objectives. In the dynamic and evolving landscape of Regional Development Banking in Sri Lanka, we are committed to identifying, assessing and mitigating risks to ensure the stability and resilience of our institution. Our comprehensive risk management framework encompasses a wide range of potential risks, including credit, market, operational and liquidity risks. By integrating robust risk management practices into our decision-making processes, we strive to safeguard our assets, protect stakeholder interests and support sustainable economic development within the country.

We have established effective and updated risk management measures and practices to balance the risk and reward for massive operational and financial results, 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 processes enable banks to take better decisions to manage and mitigate its unexpected risk and to achieve sustainable growth by improving its strategic and operational objectives.

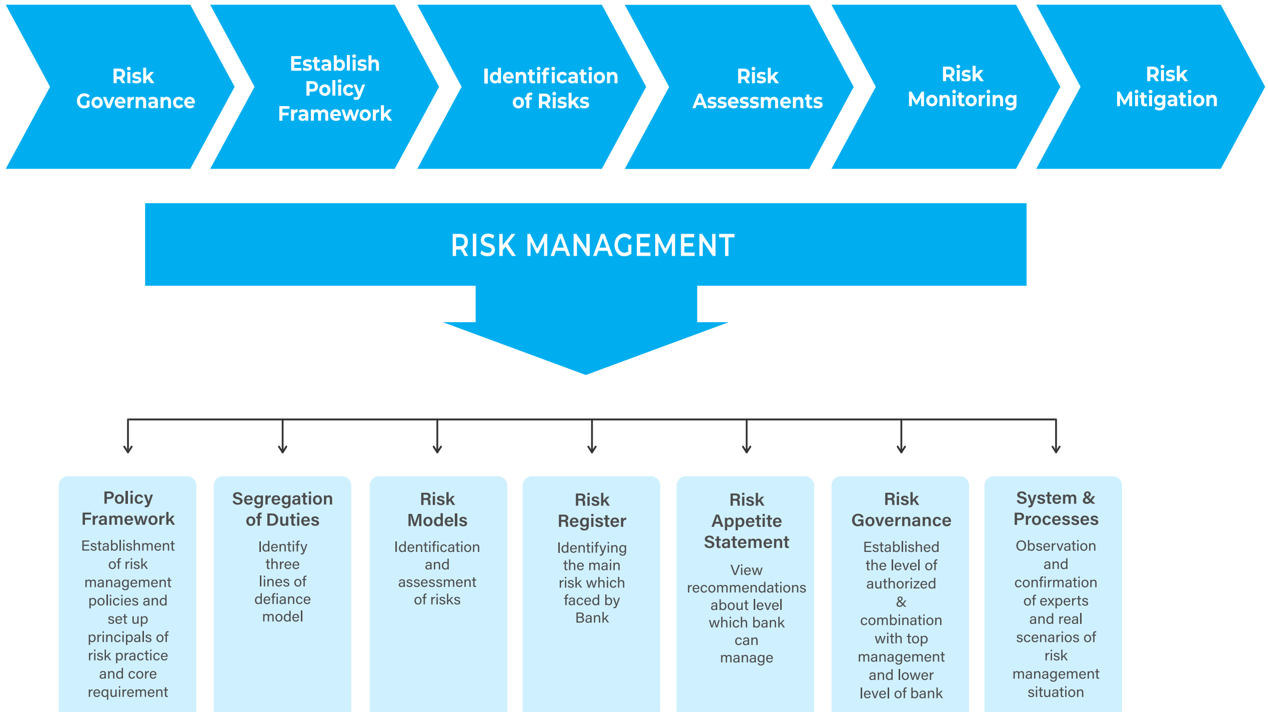
Risk Management Framework of the Bank

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

The Bank risk management framework is to

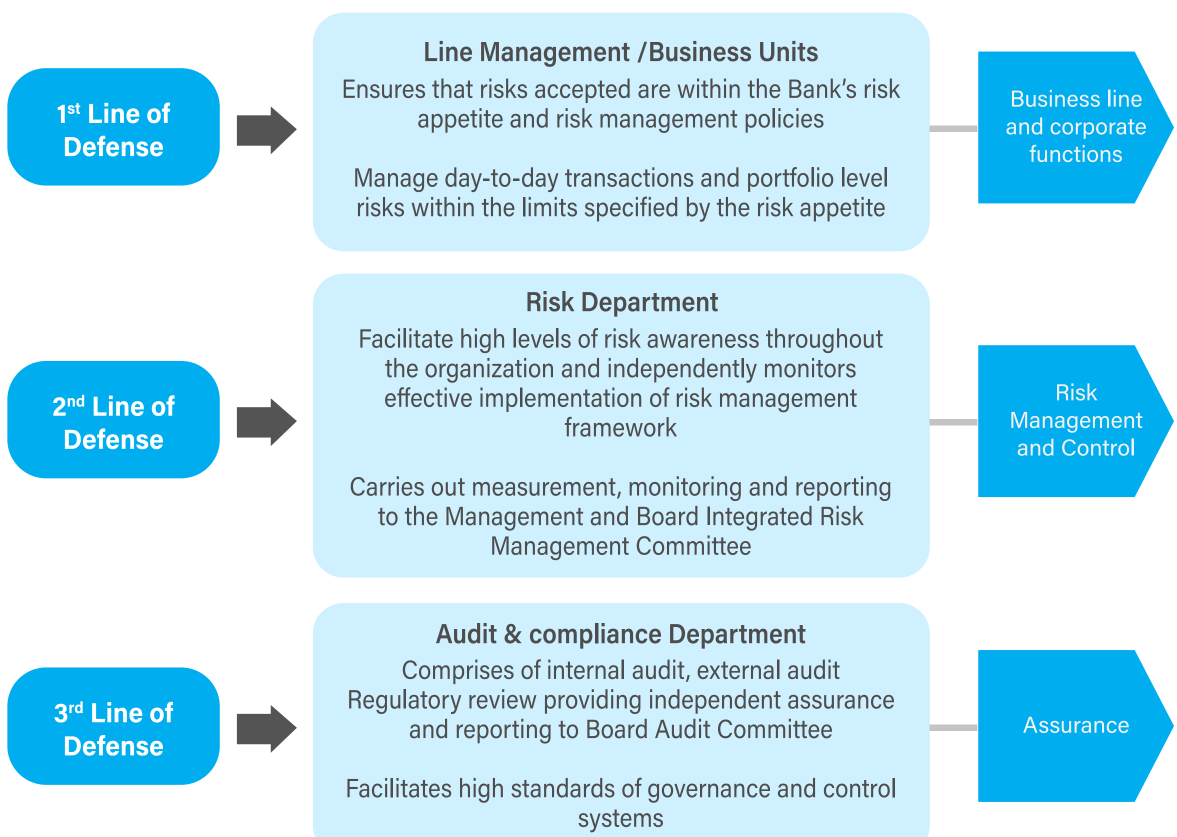
- Ensures that risks accepted are within the Bank's risk appetite and risk management profile.
- Facilitate high levels of risk awareness throughout the organization and independently monitor effective implementation of risk management framework.
- Establish the necessary organizational culture for the 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 honor contractual obligations and meet unexpected losses.
- Evaluating, identifying, and making recommendations on the overall risk situation of specific loan proposals in case basics.

Risk Management Framework of the Bank



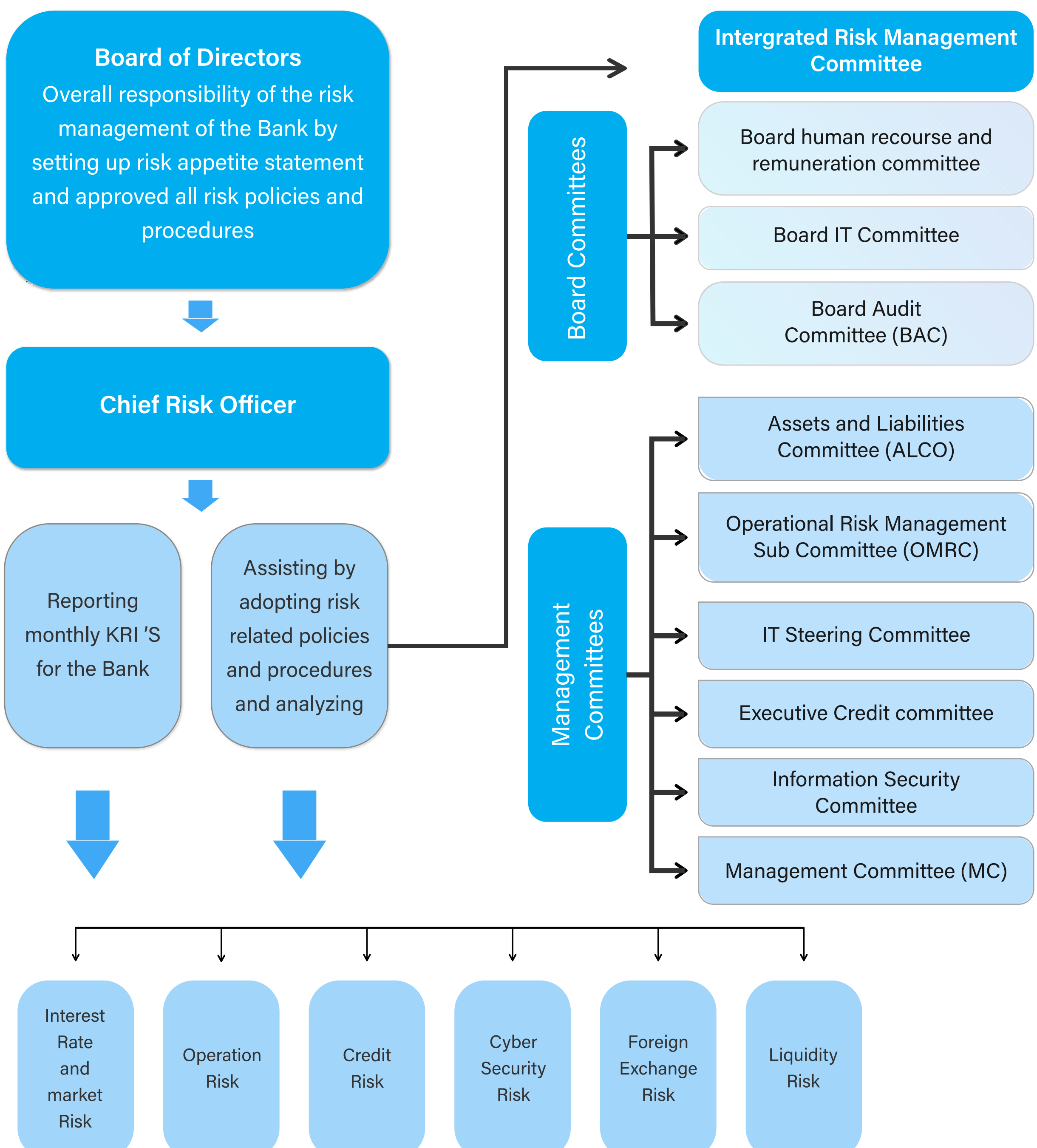
Three Lines of Defense

Three-Lines of Defense has been established by RDB as a model structured approach for risk management. The model consists of the following factors.



Risk Governance

The Bank is committed to ensuring that Risk Management practices reflect a high standard of governance. The Risk Governance structure of RDB starts from the Board of Directors and drills down to the Branch level through risk management policies, procedures, committees and delegated authority levels. The 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.



Management level Risk Management Committees

- Executive Credit Committee (ECC) -ECC is the management level committee responsible for managing 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 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 for managing 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.

- 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 a management level 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 committee which is headed by the GM/CEO of the Bank and represents all executive level staff of the Bank. The committee performs periodically and whenever necessary. The committee reviews the reports from all operational levels of the bank to mitigate the risk and uncertainty periodically.

Risk Management Department (RMD)

which is headed by the CRO. Chief Risk Officer (CRO) is an independent person who has the responsibility of assisting the Board of Directors (BOD) and IRMC with 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. The Risk Management Department periodically review and make recommendations to the Board on risk appetite, risk profile, strategy, risk management and internal controls framework, risk policies, limits and delegated authority.

The Bank's risk-related area is directly connected with several fundamental risk categories and connected risk related areas. These have been identified and recognized and 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 and 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 68.8% 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 the credit risk management process. Under, post covid 19 and economics crises situation loan and advance has decreased , 31st of December 2023 to Rs. 208,030 Mn compared to 31st December 2022.

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. The Credit risk Administration unit which is attached to RMD is responsible for identifying and monitoring the security risk, financial market trends, risk of NPL and Credit monitoring. The 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, the Risk Management Department analyzes 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. The Risk Management Division closely monitors the watch listing customer based on monthly basis and reports to the Board of Directors.

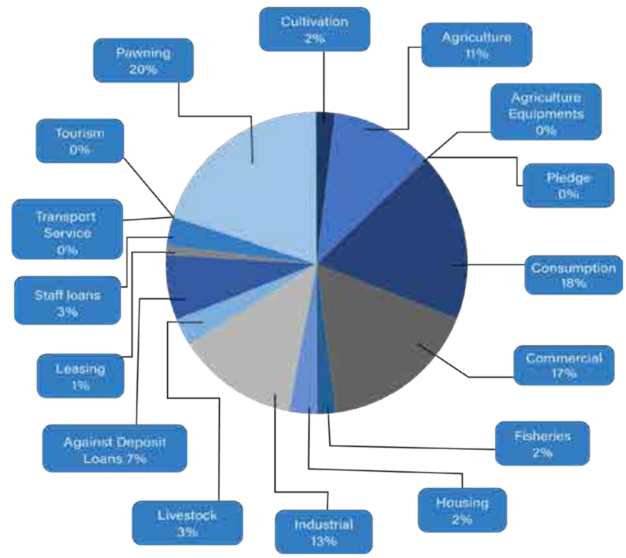
Loan Reviews Process for quality loan Portfolio Management

RDB Bank maintaining the loan review process, accordance with the CBSL regulatory requirement, bank internal controls and bank practice. Since 2017, RDB has established a comprehensive LRM to maintain quality loan portfolios. Loan review Policy of RDB establishes a common framework for Loan Review mechanism to improve qualitative and quantitative credit administration. The review should overall perform 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).

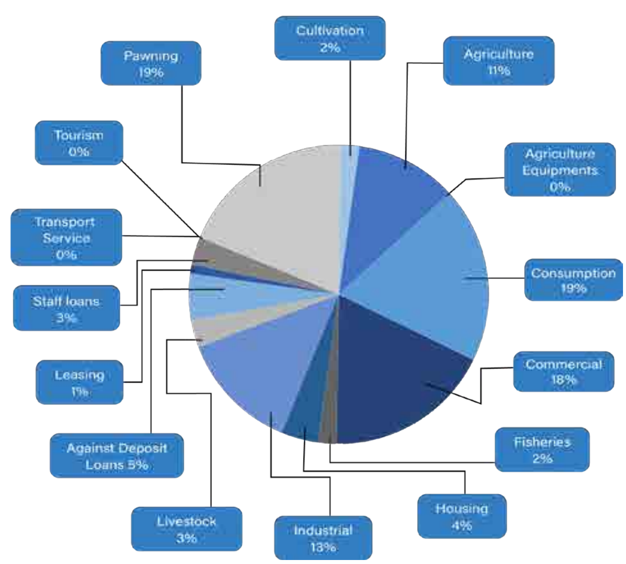
Currently loan securities reviews are conducted by the Credit Administration department before disbursement of the loan and after disbursement. The threshold level of 2.5 million Ultimate objective of this process is to maintain the quality loan portfolio and assurance of the loan securities documents.

A higher level of technical knowledge has been appointed as loan reviewing officers. They have proper knowledge about the loan approving and appraisal process of the bank. They have a proper understanding of industry norms, laws and regulations associated with the lending activities of the bank as well as the industry.

Total Loan Amount (2023)

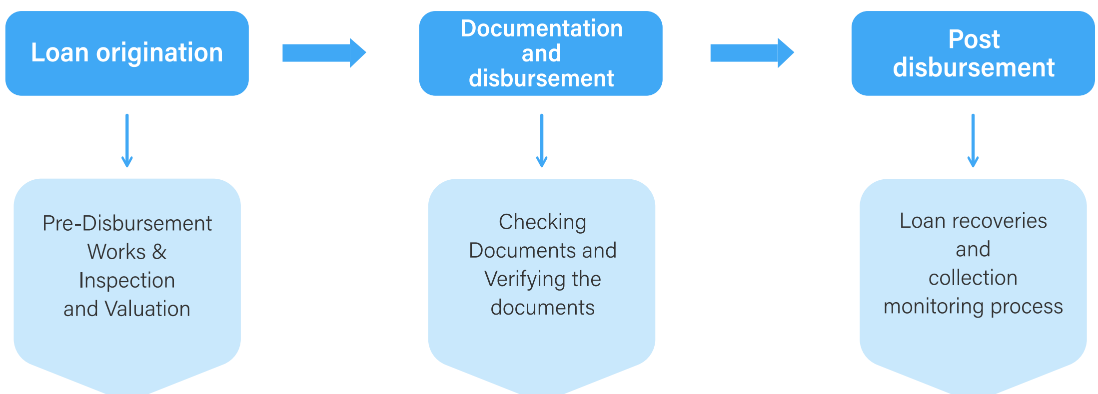


Total Loan Amount (2022)



Special covering area with the loan reviewing

- High Level of the Security Documents and it's sufficiency level.
- Transparent Approving process
- Effectiveness and efficiency of the loan granting process
- Proper lien perfection
- To maintain the Portfolio quality level
- Upgrading the Quality Level of the credit facilities.
- Identifying the lapses relating to the loan granting process and make the commendation
- To maintain the accuracy of the loan granting process
- Identifying the timelines for loan cycle and strategies for process



CREDIT ADMINISTRATION UNIT

Due to the identified risks related to the credit loan security, the bank has established independent 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 the function of the credit administration process and to reduce the credit risk.

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, a customer who has below BBB rating been not eligible for a credit facility from the Bank. The Risk Department has been directly involved with the proposed Loan Origination System (LOS) implementation process and includes above mention risk rating to Loan Origination System (LOS).

RISK-BASED PRICING

RMD introduced 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 exempt from the risk-based pricing.

Preparation of ICAAP Documents

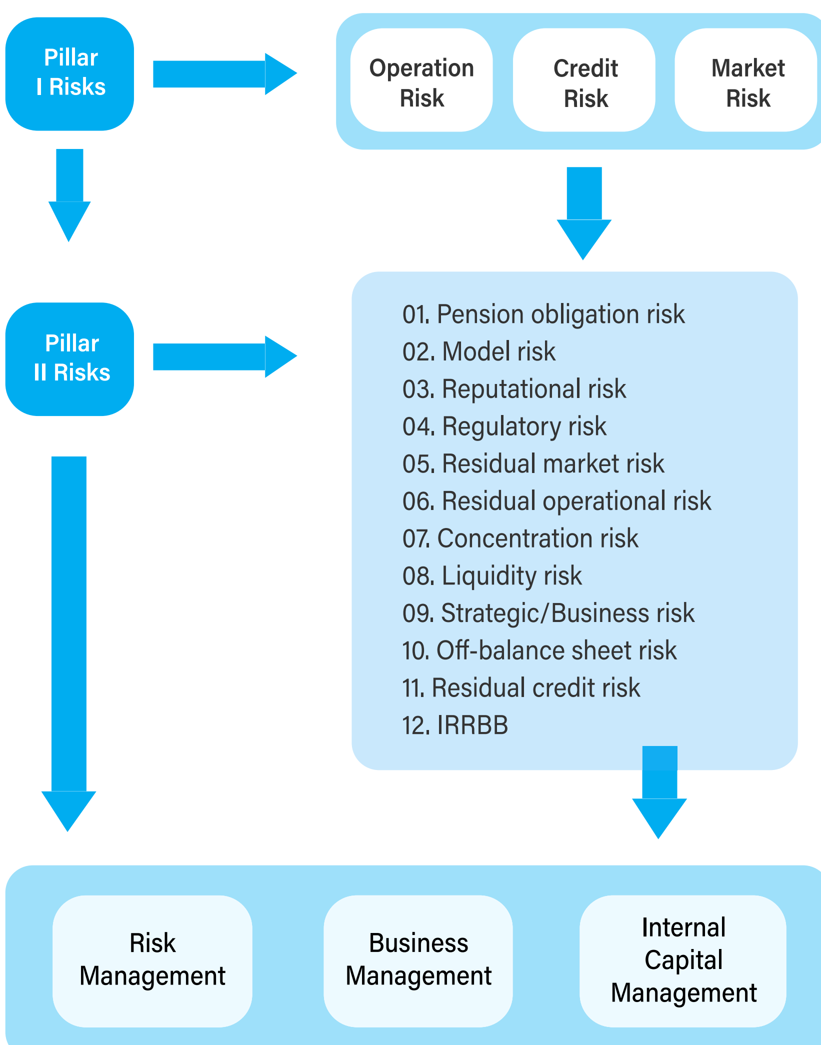
ICAAP is a Bank's internal assessment of capital that is considered adequate to cover all material risks to which it is exposed. Further, ICAAP is based upon the principle of proportionality, which states that the specific design of the bank's ICAAP is proportionate to the risk level, complexity and the scale of a bank's activities. The decision as to which systems are useful and appropriate in which areas for each bank should be made based on the bank's specific risk structure. Based on indicators, the bank itself has identified the areas in which it should employ more complex risk measurement and management methods as well as the areas in which simpler methods would suffice.

This document includes risk appetite, capital planning concepts and stress testing and sound risk management framework/ parameters to capture all material risk with the oversight responsibility of the board of directors through BIRMC.

The purpose of this report is to document/ determine the adequate level of capital to maintain going concerns of the bank and to ensure adequate capital levels with regards to the associated risks. Moreover, the report is a fulfillment of the disclosure requirement given by the Central Bank to comply with the Basel III accords.

Preparation of this document is key responsibility of the risk management department

This document is prepared as per the Board-approved bank ICAAP Policy which is in accordance with the CBSL directions on Basel III. Pillar II guidelines issued to banks on the supervisory review process and international best practices.
This ICAAP report considers both Pillar I and Pillar II risks. Accordingly, the ICAAP is directly dealing with capital levels and is expected to hold capital in excess of the regulatory minimum.



SLFR 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 SLFR 9 effect from January 2018. This provisioning method to be based on forward looking on incurred credit loss using exposure at default (EAD), probability of default (PD), Loss given default as well as 1st and 2nd installments to be arrears.

Currently, the Bank has fully adhered the directions 13 and 14 and portfolio has been maintaining according to the category level as per the cited direction and also monthly impairment calculation also in place which has ensured the accountability of the financial statement of the bank at present.

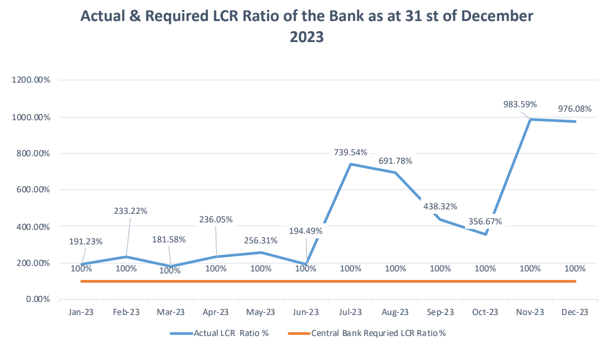
	Amortized Cost (Rs.)	SLFRS 9 (Rs.)
Stage 1	133,832,010,363.21	2,664,594,415.77
Stage 2	50,703,981,114.08	4,643,800,205.26
Stage 3	29,426,643,601.72	10,603,461,880.34
Total Amount	213,962,635,079.01	17,911,856,501.37

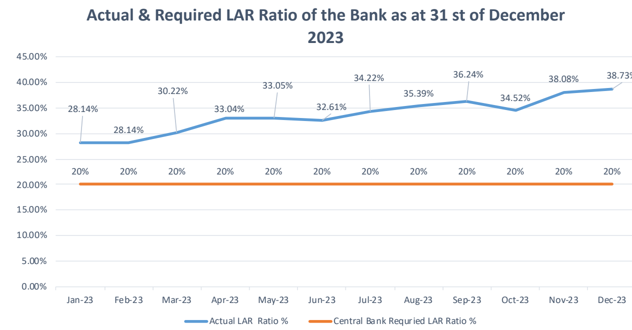
SECTORIAL LIMITS AND MANAGING CONCENTRATION RISK

The Bank has established approved sectorial limits for credit through credit risk management policy. The risk management department of RDB periodically approved these limits according to 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. The 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. The following monitoring techniques and approaches are used by the Risk Management Department of RDB to manage and monitor its liquidity.

- Stock Approach
- Flow Approach
- Stress Testing on Liquidity

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 of an appropriate course of action and funding arrangements for such situations through ALCO.

				All figures in (Rs 000')
	Balance as at 31/12/2023	Shocks		
		Minor	Moderate	Major
Magnitude of Shock		10%	15%	20%
Liquid Assets	82,688,114	82,688,114	82,688,114	82,688,114
Total Liabilities	213,486,450	213,486,450	213,486,450	213,486,450
Value fall on Total Liabilities		21,348,645	32,022,967	42,697,290
Revised Total Liabilities after shock		192,137,805	181,463,482	170,789,160
Revised Liquid Assets after shock		61,339,469	50,665,146	39,990,824
Liquid Asset Ratio	38.73%	31.92%	27.92%	23.42%
Liquidity Asset Requirement	42,697,290			
Existing Liquidity Assets	82,688,114	61,339,469	50,665,146	39,990,824
Excess Liquidity / Additional Requirement	39,990,824	18,642,179	7,967,856	-2,706,466

OPERATIONAL RISK MANAGEMENT

Due to the economic crises and government policies toward the economic controlling purpose, directly impacted on the bank operation in last financial year 2023. The Bank today has 272 branches covering entire country with more than 2,721 staff members and well standard technical solutions (CORE Banking system, ATM and CDM and Human Resource System) for supportive services. Hence the operational risk is the inherent risk in the operational process of the Bank RDB has established a comprehensive risk operational risk management policy in 2013 and approved by the Board of Directors. This is the main guidance for the Bank operational risk management of the bank, and it is periodically reviewed. RDB has well established internal controls process to monitor and cover the operational risk events 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.

THE OPERATIONAL RISK POLICY

The Operational Risk policy set out by Pradeshiya Sanwardhena Bank and reviewing periodically which covers the operational risk management principles and governance structure. The policy has been framed in line with,

- Requirement of Basel III guideline
- Guideline issued by Central Bank of Sri Lanka (CBSL)

OPERATIONAL RISK MANAGEMENT EXECUTIVE COMMITTEE (ORMEC)

Operational Risk Management Executive Committee is responsible for the management of the risk profile of the Bank in accordance with sound banking principles, the statutory requirements and the risk appetite as set out in the Risk Appetite Statement (RAS). The ORMEC commences on a monthly basis and reviews the operational level issues of the Bank and provides solutions to the subject issues.

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 from time to time through DR drilling and BCP drilling.

INTEREST RATE RISK

Changes in interest rates can have a 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. Monetary Policy rates of the country have changed throughout the year 2023. According to the Interest Rate Risk Management Policy approved by the Board, ALCO is responsible for determining the interest rates based on gap and duration analysis of the Bank. The Risk Management Department will carry out risk assessment on 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

In this section refers to the usage of computer system in the bank 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 reputation damages. Up to the end of 2014, the Bank worked on four different IT platforms. Now RDB is a centralized IT solution and provides several digital banking services to the customer segments. Increasing digitalization also increases the information and cyber risk of the Bank operation. Following are few digital platforms which has been provided to the Bank customer and the employees at present.

ATM NETWORKS FACILITY AND VISA

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. Initial step was performed for the bank VISA card project.

No	Branch Cords	ATM Locations
1	1340	Kelaniya
2	1170	Mawaramandiya
3	8200	Siripura
4	7020	Pannala
5	7290	HQB- Kurunegala
6	4300	Hedeniya
7	1320	Ja-Ela
8	3010	Kegalle
9	4200	Dambulla
10	7130	Chillaw
11	5050	Badulla
12	8070	Medawachchiya
13	9010	Vavuniya
14	7100	Wariyapola
15	6030	Sammanthurai
16	6110	Batticaloa
17	1090	Horana
18	2100	Katuwana
19	5100	Wellawaya
20	1330	Miriswatta
21	2510	Mirissa
22	4320	Ududumbara
23	3150	Embilipitiya
24	1250	Homagama
25	1240	Nittambuwa
26	1000	Mobile Vehicle ATM
27	3140	Welioya LKA
28	8260	Parakumpura
29	3050	Warakapola
30	3040	Mawanella
31	4330	Peradeniya
32	7160	Naththandiya
33	4110	Rikillagaskada
34	8020	Anuradhapura Town
35	8080	Thirappane
36	2330	Mathara City
37	3340	Pulingupitiya
38	8100	Polonnaruwa
39	1210	Mathugama
40	7170	Kirimatiyana
41	7270	Polpithigama
42	2180	Thissamaharamaya
43	6090	Uhana
44	4210	Galewela
45	1310	Kirindiwela
46	6010	Ampara
47	6130	Chenkaladi
48	5090	Mahiyanganaya
49	9050	Jaffna
50	9060	Kilinochchi
51	1340	Manin Market (Kelaniya)

CUSTOMER DEPOSITORY MACHINES (CDM)

Currently RDB has facilitated their customers through Customer Depository Machines as well (CDM).

HUMAN RESOURCES MANAGEMENT SYSTEM

The Bank operates with a human resources management system to manage their employee database and payroll.

QR CODE

The Bank has been providing the QR payment system facility to the Bank customer since 2023.

ONLINE BANKING APP

The Bank is in the process of introducing the online Banking App to provide speed and modern services to the Bank customer

AML SYSTEM

From 2023 the Bank has facility of AML system to ensure the compliance activities of the Bank and the internal control of the Bank.

THE RECOVERY MANAGEMENT SYSTEM.

The Bank is in the process of implementing the Recovery Management System within the Bank to minimize the credit risk of the Bank.

IT GOVERNANCE STRUCTURE

IT Steering Committee

This committee is the major governing structure of the Information and the information systems of the bank. The bank 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 maintain and approve information security and acceptable usage policies to maintain internal control measures 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 reputational 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.

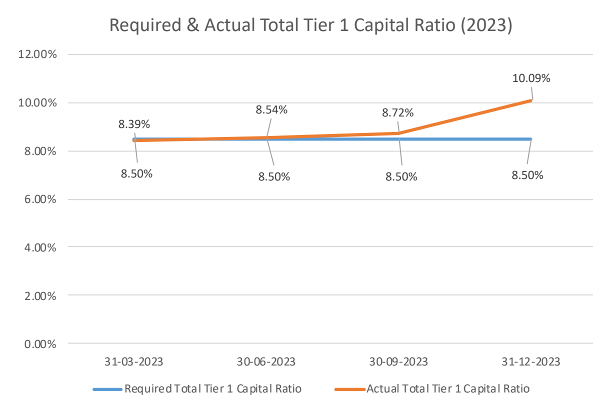
– Identifying and ensuring timely review of applicable policies and procedures which granted by authorized parties.

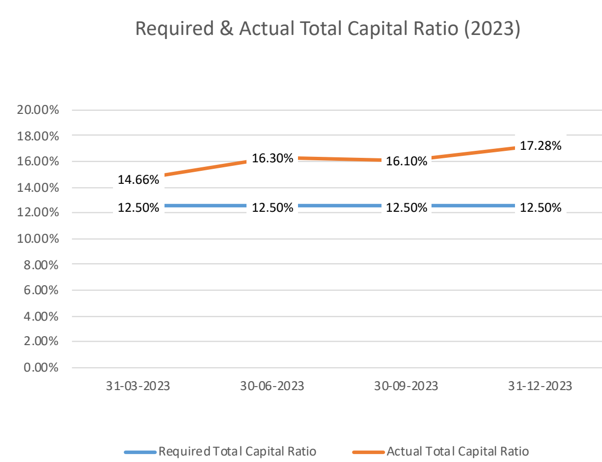
– Assessment conducting compliance on branches, divisions and products of the Bank.

– 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. The 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 fluctuations 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-enforceability 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.

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. The Bank has ensure the following internal controls to minimize the legal risk of the Bank.

- It is so important to use completed and correct format of documents for every operation of the bank. Among these, usage of correct credit security documents, loan applications 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 communicated to the credit officers, branch manager and other related parties about updated format and changes. And closely supervise and advise changes on above mention.

- Loan Disbursements are subject to dual controls. The process ensures availability of funds as per customer requirement with in the set internal controls.

FUTURE OUTLOOK

Looking ahead, RDB is well-positioned to capitalize on the opportunities in the development Banking industry while navigating the challenges. The Bank's strategic focus on maintaining quality portfolio by introducing new products and digitalization, sustainability, and customer service excellence will continue to drive its success. By leveraging its strengths and exploring new growth avenues, Regional Development Bank aims to maintain its leadership position in the development banking industry and deliver value to its customers.

The Bank's future plans include enhancing its technological capabilities to provide a seamless and personalized Banking service. Investments in digital solutions such as online Banking app. New CORE Banking solution and smart Banking units will enable the Bank to meet the evolving expectations of the modern community. Additionally, RDB plans to expand its portfolio through a well-established strategic plan and partnership with the government, further strengthening its market presence.

“Seeds of prosperity; Banking for sustainable regional growth.”

Corporate Governance

AUDITOR GENERAL'S REPORT ON CORPORATE GOVERNANCE

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. BAN/E/RDB/CG/2023   ඔබේ අංකය / உமது இல. / Your No.   දිනය / திகதி / Date 05 August 2024

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 2023

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

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

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

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

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

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

W.P.C.Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34   +94 11 2 88 72 23   ag@auditorgeneral.gov.lk   www.naosl.gov.lk

CORPORATE GOVERNANCE

Section		Principle	Level of Compliance during the year 2023
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. The Bank adopts a rolling Corporate Plan. At the end of each year existing plan is reviewed with the involvement of the Chairman, BOD, Corporate and Executive Management. The new plan will be developed or the existing plan with revision will be rolled out for another three years. Also, the Corporate Plan for 2023 -2025 was approved by the Board.
		Whether the Bank has communicated the bank's strategic objectives and corporate values throughout the bank.	The strategic objectives and corporate values of the bank have already been communicated to all KMP 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 overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. The overall business strategy contains measurable goals, for at least the next three years.	**Complied With.** The board approved the Corporate Plan (2023-2025) includes the overall business strategy of the Bank. 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 Corporate Plan 2023-2025 contains measurable goals for the next 2 years.
	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;	**Complied With.** A Board approved updated communication policy is in place, and it includes communication with all stakeholders, including depositors, creditors, shareholders and borrowers

e)	The Board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	**Complied with.** There is a mechanism at the Bank to identify the accuracy of the Bank's internal control systems by the Board of Directors through the process over design and effectiveness of internal control over financial reporting. The Board Audit Committee is tasked with reviewing the adequacy and the integrity of the Bank's internal control system.
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. General Manager/CEO, Chief Finance Officer, Chief Information Officer, Chief Human Resource Officer, Head of Recovery, Chief Internal Auditor, Board Secretary, Compliance officer, Chief Legal Officer, Deputy General Manager, Senior Assistant General Manager, Assistant General Manager and Regional General Manager are the designated Key Management Personel 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.** The Board Charter defines the areas of authority and key responsibilities for the Board of Directors and General Manager/CEO. The Board approved Board Charter is in place and the board shall review the Board Charter once in two years.
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.** Appointments to the Board are made by the shareholder, the Government of Sri Lanka through the Minister under whose purview the Bank comes in terms of the provisions of the section 11 of Pradeshiya Sanwardana Bank Act, No. 41 of 2008. A self-evaluation of the performance of the Board is carried out annually by assessing its own governance practices. Any weakness in the governance practices is monitored by the Nomination and Corporate Governance Committee in its overall evaluation of the Compliance with the applicable governance practices and report to the board for necessary action. Weaknesses and implementation of changes are being discussed and determined at the Board through the submission of the summary of annual self-evaluations of the Board members.
j)	The Board has a succession plan for key management personnel.	**Complied with.** The board approved succession plan for Key Management Personnel of the Bank (Executive Management and the Corporate management) is in place.

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.** KMPs are regularly present or are called in for discussions at the meetings of the Board and its subcommittees on policy and other matters relating to their area
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. GM attends all relevant forums held by the Governor and the Director, Bank Supervision of the CBSL to discuss matters relating to the industry. Compliance Officer submits a compliance report to the Board.
m)	The Board has a process in place for hiring and oversight of external auditors.	**Not Applicable:** As provided for in the Constitution of the country and under section 33 of the Pradeshiya Sanwardana Bank Act, the Auditor General is the External Auditor of the Bank as it is a State-Owned Enterprise
3(l)(ii)	The Board has appointed the Chairman and the Chief Executive Officer (CEO). The functions and responsibilities of the Chairman and the CEO are in line with Direction 3(5) of these Directions.	**Complied with.** The Board shall appoint a General Manager/CEO of the bank as per the PSB Act. However, there was no permanent General Manager/CEO appointed during the year 2023. The Chief Finance Officer has been appointed as the acting General Manager/CEO to cover up duties with effect from 05.09.2022 until a permanent General Manager/CEO gets appointed. A new Chairman has been appointed for the period from 15.02.2023 in terms of the provisions of PSB Act by the Hon. Minister in charge of PSB. Due to CBSL had not granted the approval for him, another person has been appointed by Ministry of Finance, Economic Stabilization and National Policies with effect from 30.10.2023. 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. A Board Charter which defines the responsibilities of the Chairman, and the Chief Executive Officer is in place.
3(l)(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. 13 meetings have been held during the year 2023.

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.** A Board approved process is in place in this regard included in the Board Charter which was reviewed in 2023. 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.
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 the consent of all Directors is 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.	Attendance of the Board members submitted by the Board Secretary evidence that such a situation has not arisen during the year 2023. Board members have been educated on such attendance requirements by the Board Secretary by submitting them with corporate governance rules.
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:** The Secretary to the Board whose credentials/ qualifications are in compliance with the provisions of Section 43 of the Banking Act No. 30 of 1988 and its amendments and as per section 19 of the Pradeshiya Sanwardana Bank Act. She is primarily responsible for handling the secretariat services to the Board and carrying out other functions specified in the statutes and other regulations. 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 members of the Board have the opportunity to obtain the advice and services of the Secretary to the Board who is responsible to the Board for follow-up of Board procedures, compliance with rules and regulations, directions and statutes.
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 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.
3(I)(xi)	There are procedures agreed by the board to enable directors upon responsible request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	**Complied with.** Bank has process to Access to Independent Professional Advice and the Board resorts to such advice when deemed necessary.
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 occurred during the year. Further those requirements were covered in the Related Party Transaction Review policy, and this was reviewed in 2023.
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.	**Complied with.** The Board ensures that the bank is capitalized at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds. The Capital Augmentation Plan has been submitted to the Board on an annual basis. The calculation of CAR is submitted to the Board with the monthly Financial Statements of the Bank.
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.** The Self-Assessment for the year 2023 has been done in January 2024.
3(2)	**The board's Composition**	
3(2)(i)	Board comprises of not less than 7 and not more than 11 directors.	**Complied with.** As per the Corporate Governance Direction, and the Pradeshiya Sanwardhana Bank Act No.41 of 2008 the Board shall comprise of not less than 7 and not more than 11 directors and comprised of 09 Directors as at 31.12.2023
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 of the Bank has been in office for a period exceeding 9 years.
	(B) In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	**Complied with.** 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:	**Complied with.** A minimum of Three 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 Banks and One Non-Independent Director being appointed from the General Treasury.

a)	Holds a direct and indirect shareholding of more than 1 percent of the bank;	**Not applicable**
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 percent of the regulatory capital of the bank.	**Not applicable.**
c)	has been employed by the bank during the two year period immediately preceding the appointment as director	**Not applicable.**
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)	**Not applicable.**
e)	represents a specific stakeholder of the bank	**Not applicable.**
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.	**Not applicable.**
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.
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 non-executive 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. Attendance of the Board members for the year 2023 evidence that the required quorum has been complied with at all Board meetings. All Board members of RDB are non-executive directors appointed by the Minister of Finance.
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 the 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.** None of the Directors 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.
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.** There were no director or General Manager appointed from another bank during the year 2023.
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 the 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.** The 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 19.01.2024. Approval limits have been determined according to the 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.

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.** Since the Chairman is an Independent Non-Executive Director, 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.** There is a process in place at the bank, where declarations are obtained by the Board Secretary annually from the Chairman and General Manager and other Board members to verify their relationships as required by this Direction. The board secretary has obtained annual declarations and that help to verify such relationships.
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 performance through self-assessment process which provide evidence that Chairman, ▪ Provides leadership to the Board ▪ Ensures that the Board functions effectively in discharging its responsibilities ▪ All key issues are discussed by the board in a timely manner.
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 07 days 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.** Annual self-evaluation process of the Board evidence that the process encourages all directors to make active contributions to the board's affairs and the Chairman taking the lead to act in the best interest of the bank. The Self-Assessment for the year 2023 has been done in January 2024.
3(5)(viii)	The Board has a self-evaluation process that assesses the contribution of non-executive directors.	**Complied with.** The entire Board consists of Non-executive directors and the self-evaluation process in place to assess the effective contribution rendered by them. The Self-Assessment for the year 2023 has been done in January 2024. Self-assessment forms have submitted by all directors other than 04 directors who resigned during the year.

3(5)(ix)	The Chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	**Complied with.** The Chairman of the RDB 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. Representatives of major shareholders are, 1. Bank of Ceylon-Mr.G.A Jayashantha 2. NSB-Ms.Devika Silva 3. Peoples' Bank-Mr.S.N.B.M.W Narayana 4. Ministry of Finance-Mr.W.A Sarath Kumara
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.
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 Secretary to the Board serves as Secretary to all subcommittees and maintains minutes etc. with oversight by the respective Chairpersons. Subcommittee minutes and decisions are presented to the Board by the Board Secretary. 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.	**Complied with.** The Chairman of the Audit Committee is an Independent Non-Executive Director who was appointed from 20.03.2023 to comply with the Direction.
	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.** The Auditor General is the External Auditor of the Bank as provided in the Constitution of the country. Therefore, the Committee has no role to play in the engagement of the External Auditor. 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.** Independence and effectiveness of Auditor General is guaranteed under the Constitution of Sri Lanka and AG ensures the independence of any auditor assisting him to perform the Audit 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.** The Bank's Auditor is the Auditor General (AG) in terms of the Constitution of Sri Lanka.
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.	**Not Applicable.** 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.** Two "Closed door meeting" were held on BAC meetings held on 15.08.2023 and 27.11.2023 It has been made a permanent agenda item in the Audit Committee and upon the request of the Rep. of the AG, a closed-door meeting is ready to be accommodated.
i)	The committee has reviewed the external auditor's management letter and the management's response thereto.	**Complied with.** Management Letter with response for the year 2022 pending for review by the Board Audit Committee. Major issues have been discussed from time to time.
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.** The Audit Committee reviews and makes necessary recommendations with regard to the adequacy of the scope, functions and resources of the Internal Audit Department.
	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.** The Internal Audit Plan for the year 2023 has been recommended by the BAC to the Board for adoption. Committee has reviewed the progress of Internal Audit Plan BAC has reviewed the results of the internal audits carried out on branches/departments by the Internal Audit Dept. and discussed the follow-up action required where necessary.
	III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	**Complied with.** Biannual KPI based performance of Chief Internal Auditor has reviewed.
	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.** As per the structure/Organization Chart of the Bank, the Chief Internal Auditor (CIA) reports directly to the Board Audit Committee and he is independent and carries out his duties with impartiality and due care. And major observations reported to the Board Audit Committee.

k)	The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	**Complied with.** The major internal audit findings and the management responses were discussed by the Audit Committee and necessary recommendations were made.
l)	Whether the committee has had at least two meetings with the external auditors without the executive directors being present.	**Complied with.** The committee has had two 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.** Four committee meetings had been held during the Year 2023 and maintained minutes.
o)	The Board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	**Complied with.** Details of the activities, number of audit committee meetings held, and details of attendance are disclosed in the annual report.
p)	The Secretary of the Committee is the company secretary or the head of the internal audit function.	**Complied with.** Board Secretary is the secretary to the Audit Committee.

	q)	The "whistle blower" policy covers the process of dealing with;	
		i) The improprieties in financial reporting, internal control or other matters.	**Complied with.** The Bank has adopted a Whistle Blower Policy which covers the required aspects of the direction.
		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	BAC has reviewed the Whistle Blower Policy and recommended the same for approval of the Board. Further, significant findings are reported to the Board Audit Committee for appropriate follow-up action.
		iii) Appropriate follow-up action.	
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. The Board approved updated Remuneration Policy is in place.
	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 Charter. However, the document of setting goals and targets to the Board of Directors has been submitted to the Board meeting held on 13.02.2024 for approval and it was deferred to the next meeting. **Complied with.** Goals and Targets for the Key Management Personnel (KMP) have been documented as per the annual budget and sectional action plan. Performance evaluations of the year 2023 were carried out in the year 2024, against these targets. The General Manager is responsible for the implementation of the annual budget through KMPs.
	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 evaluated by the Board Human Resource & Remuneration Committee. While the performance evaluation of CRO, CO and CIA who are engaged in the independent functions are reviewed and evaluated by relevant Board Sub Committees. Performance evaluations of the year 2023 were carried out in the year 2024
	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.
	b)	The committee has considered and recommended (or not recommended) the re-election of current directors.	**Complied with.** 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.
	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 04 Non-Executive Directors, Chief Executive Officer and AGM-Risk Management who supervise credit, market, operational, reputational and strategic risks. The Compliance Officer attends meetings by invitation. Any other KMP and other staff are invited as and when the Committee needs their presence.

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. The committee has met 04 times during the year 2023 and the committee assessed 10 reports on Key Risk Indicators for the period of January 2023 to October 2023. No subsidiary or associate companies established under this Bank.
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 by 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. The committee has met 04 times during the year 2023 and the committee assessed 10 reports on Key Risk Indicators for the period of January 2023 to October 2023.
e)	How many times the committee has met at least quarterly.	**Complied with.** The committee has met 04 times during the year 2023.
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 high-risk matters through the committee papers. However, it was not identified any events for the year 2023.
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. The Annual Compliance plan and a Compliance policy are in place.

3(7) Related party transactions

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: 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.	**Complied with.** A Board approved Policy on Related Party Disclosures is in place covering related parties, their transactions, and restrictions on offering more favorable treatment to related parties in order for the Board members to avoid any Conflicts of Interest in this regard. Directors who have related party transactions are individually requested to declare their transactions. 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.** Board approved Related Party Transaction Policy is in place. Related party transactions can be identified through CBS based on declarations provided. There is no favorable treatment granted for the related parties.

3(7)(iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the bank carrying on the same business.	**Complied with.** The bank has implemented a process to monitor Related Party Transactions which is monitored by Compliance Division and compliance status indicated in the compliance report submits to the Board/BIRMC by quarterly/annually. Bank has not granted the more favorable treatment to any related parties during the year 2023.
	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.
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 2023.
	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 2023 covers this requirement.
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. Bank has published financial statements quarterly and annually for the year 2023.
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.** Bank has disclosed the requirement under note No 2.2
	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.	**Complied with.** Total exposure to KMPs and close family members has been disclosed under note no 37 of the financial statements.
f)	The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	**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 37.1 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.	Such a situation has not arisen.

Attendance of the Board and Board Committees

Names	Mr. W.A.D.S.Gunasinghe Chairman	Mr. K.Raveendran Board Director	Mr. S.N.B.M.W.Narayana Board Director	Mr. Lalith Abeysiriwardena Board Director	Mr. G.A.Jayashantha Board Director	Mrs.Hiranthi Karunartne Board Director	Mrs. K.E.Dilrukshi Board Director	MrW.A.Sarath Kuamara Board Director	Mr. M.L.D.C.M. Abeywardana Board Director	Mr.Boshan H. Dayaratne Board Director	Mr. Dushshantha Wijekoon Board Director	Ms. Devika Silva Board Director	Mr. Ajith Karunaratne Board Director
Dates													
20.03.2023	N/A	P	P	P	P	P	P	E	N/A	N/A	N/A	N/A	N/A
27.03.2023	N/A	P	P	P	P	P	P	P	N/A	N/A	N/A	N/A	N/A
20.04.2023	N/A	P	P	P	P	P	P	P	N/A	N/A	N/A	N/A	N/A
08.06.2023	N/A	P	P	P	P	E	P	P	N/A	N/A	N/A	N/A	N/A
06.07.2023	N/A	P	P	P	E	P	E	P	N/A	P	N/A	N/A	N/A
13.07.2023	N/A	P	P	P	P	E	E	P	N/A	P	N/A	N/A	N/A
10.08.2023	N/A	P	P	P	P	E	P	P	P	P	N/A	N/A	N/A
14.09.2023	N/A	P	P	E	R	R	P	P	P	P	N/A	N/A	N/A
30.10.2023	N/A	R	P	P	R	R	E	R	P	P	P	P	N/A
16.11.2023	N/A	R	P	P	R	R	P	R	P	P	P	P	N/A
05.12.2023	P	R	P	P	R	R	P	R	P	P	P	P	P
14.12.2023	P	R	P	P	R	R	P	R	P	P	P	P	E
21.12.2023	P	R	E	P	R	R	P	R	P	P	P	E	P

Attendance of the Board Integrated Risk Management Committee

Dates / Names	27.04.2023	15.05.2023	03.08.2023	28.11.2023
Mr.K.Raveendran Board Director/Committee Chairman	P Joined via Zoom	P Joined via Zoom	P	R
Mr.G.A.Jayashantha - Board Director	P Joined via Zoom	P	P	R
Mr. S.N.B.M.W. Narayana -Board Director/ Committee Chairman	P	P Joined via Zoom	E	P
Mr. Boashan H. Dayaratne -Board Director	N/A	N/A	P	P
Mr. Dushshantha Wijekoon - Board Director	N/A	N/A	N/A	P
Ms. Devika Silva - Board Director	N/A	N/A	N/A	E

Attendance of the Board Audit Committee

Dates / Names	09.05.2023	15.08.2023	08.09.2023	27.11.2023
Mrs. K.E. Dilrukshi - Board Director/ Chairman of BAC	P	P	P	P
Mr.W.A Sarath kumara - Board Diretor	P	P	P	R
Mr.Lalith Abaysiriwardena - Board Director	P	P	P	P
Mr.Boshan H. Dayaratne -Board Director	N/A	N/A	P	P
Mr. Dushshantha Wijekoon - Board Director	N/A	N/A	N/A	P

Attendance of the Board Human Resource & Remuneration Committee

Dates / Names	27.03.2023	15.05.2023	06.07.2023	31.07.2023	12.09.2023	13.11.2022
Mr.Lalith Abeysirieardena - Board Director	P	P	P	P	P	P
Mrs. Hiranthi Karunaratne - Board Director	P	E	P	E	p	R
Mr. G.A.Jayashantha - Board Director	E	P	E	P Joined via Zoom	E	R
Mr. M.L.D.C.M. Abeywardana - Board Director	N/A	N/A	N/A	N/A	N/A	P

Attendance of the Board Nomination Committee

Dates / Names	27.03.2023	15.05.2023	12.09.2023	13.11.2023
Mr.Lalith Abeysirieardena - Board Director	P	P	P	P
Mrs. Hiranthi Karunaratne - Board Director	P	E	P	R
Mr. G.A.Jayashantha - Board Director	E	P	E	R
Mr M.L.D.C.M. Abeywardana - Board Director	N/A	N/A	N/A	P

Annual Report of the Board of Directors

General

The Directors of the Pradeshiya Sanwardana 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 fourteenth year ended 31st December 2023. The Report also conforms to the requirements of the Pradeshiya Sanwardana 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 Sanwardana Bank Act No. 41 of 2008. PSB is a fully state-owned national level Bank with the objectives of empowering the living standards of the rural masses by providing them accessible and affordable financial services that in turn would contribute to uplift the rural economy

PRINCIPAL ACTIVITIES

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

VISION, MISSION

The Bank's Vision and Mission are given on page 4,5 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 Fourteenth year ended 31st December 2023, are duly signed by the Chief Financial Officer, Chief Executive Officer and two Directors of the Bank, are given on page 111 and form an integral part of the Annual Report of the Board of Directors.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Directors' Responsibility Statement appearing on page 104 of this Annual Report describes in detail the Directors' responsibilities in relation to the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

AUDITOR'S REPORT

The Auditor General carried out the audit of the Bank in 2023, 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 106 of this Annual Report. As a regulatory supervisory body, the Central Bank of Sri Lanka carried out a periodic examination of the records and affairs of the Bank to ascertain compliance with directives issued by the Central Bank of Sri Lanka.

It also determines whether required financial indicators are being maintained at the necessary level so that the interests of the stakeholders, particularly the depositors, are safeguarded.

SIGNIFICANT ACCOUNTING POLICIES

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

DIRECTORS' REMUNERATION

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

FUTURE DEVELOPMENTS

An overview of future developments of the Bank is given in the Chairman's statement (pages 12 to 13), the General Manager/ CEO's review (pages 14 to 15) and the Management Discussion and Analysis (pages 30 to 60)

REVIEW OF BUSINESS PERFORMANCE

A review of the Bank's performance during the financial year 2023 is contained in the Chairman's statement (pages 12 to 13), the General Manager/ CEO's review (pages 14 to 15) and the Management Discussion and Analysis (pages 30 to 60). These reports form an integral part of the Annual Report.

FINANCIAL RESULTS

The Bank's financial and operational performance is given on the General Manager/ CEO's Review on pages 14 to 15 and in the Financial Highlights on pages 10 to 11.

STATED CAPITAL

		Rs.	%
01.	General Treasury	8,028,374,347	91.21
02.	Bank of Ceylon	164,484,480	2.93
03.	People's Bank	164,484,480	2.93
04.	National Savings Bank	164,521,260	2.93
	Total	8,521,864,556	100

INCOME

The gross income of the Bank for 2023 was Rs.47.58 Billion. Details of the income are given on page 135.

TAXATION

The Bank contributed Rs. 21644 Million by way of taxes and levies to the Government in 2023. This consisted of Rs.319 Million of Income Tax and Rs.21066 Million of Value Added Tax on financial services. 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. 569 Million (2022 Rs. 209 million), the details of which are given in notes 24 and 25 of the Financial Statements on pages 144 to and 147 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 40 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:

	2022Rs.	2023(Rs)
Stated Capital	8,221,864,565	8,521,864,568
Statutory Reserve Fund Fund	845,247,866	888,423,757
Special Reserve Fund	699,638,195	742,814,085
General Reserve Fund	3,569,591,213	3,742,294,776
Retained Earnings	2,889,785,536,	3,970,324,488
Total	16,226,127,375	17,865,721,674

DIVIDENDS

In view of marginal operating results of the year 2023 and the Direction Number 3 of 2022 dated 13/05/2022 of Central Bank of Sri Lanka, the Directors have not approved dividend distribution out of profits for the year 2023.

BOARD OF DIRECTORS

The Board of Directors comprises 11 Members including the Chairman. The Secretary to the Treasury appoints the Chairman and the other Directors, while four Directors are nominated by the shareholders representing the General Treasury, Bank of Ceylon, People's Bank and National Savings Bank. The following are the names of the members of the Board of Directors whose brief profiles appear on pages 18 to 21 of this Annual Report.

Mr. W.A.D.S.Gunasinghe
Chairman

Mr. K. Raveendran
Non- Independent/ Non-Executive Director

Mr. Lalith Abeysiriwardena
Independent/ Non-Executive Director

Mr.G.A. Jayashantha
Non- Independent/ Non-Executive Director

Mrs. Hiranthi Karunarathne
Independent/ Non-Executive Director

Mr. S.N.B.M.W.Narayana
Non- Independent/ Non-Executive Director

Mrs.K.E. Dilrukshi
Independent/ Non-Executive Director

Mr. Boshan H. Dayaratne
Independent/ Non-Executive Director

Mr. M.L.D.C.M. Abeywardana
Independent/ Non-Executive Director

Mr.Dushshantha Wijekoon
Independent/ Non-Executive Director

Ms. Devika Silva
Non -Independent/ Non-Executive Director

Mr.K.A.A.Karunaratna
Non- Independent/ Non-Executive Director

Mr.W.A.Sarath Kumara
Non- Independent/ Non-Executive Director

RESIGNATION OF DIRECTORS

Mr. K. Raveendran
Non- Independent/ Non-Executive Director

Mr.G.A. Jayashantha
Non- Independent/ Non-Executive Director

Mrs. Hiranthi Karunarathne
Independent/ Non-Executive Director

Mr.W.A.Sarath Kumara
Non- Independent/ Non-Executive Director

NEW APPOINTMENT OF DIRECTORS

Director	Appointment Date
Mr. S.N.B.M.W.Narayana	10.02.2023
Mrs.K.E. Dilrukshi	01.02.2023
Mr. Boshan H. Dayaratne	07.03.2023
Mr. M.L.D.C.M. Abeywardana	05.06.2023
Mr.Dushshantha Wijekoon	29.08.2023
Ms. Devika Silva	11.10.2023
Mr.K.A.A.Karunaratna	11.10.2023
Mr. W.A.D.S.Gunasinghe	30.10.2023

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

01. Mrs. K.E.Dilrukshi (Chairperson of the Committee)
02. Mr. W.A. Sarath Kumara (resigned w.e.f. 27th September 2023)
03. Mr. Lalith Abeysiriwardena
04. Mr. Boshan H. Dayaratne (appointed on 13.07.2023)
05. Mr. Dushshantha Wijekoon (appointed on 30.10.2023)
06. Mr.P.A.S. Arachchi (Government Audit Superintendent)
07. Mr. J. Priyashantha – Chief Internal Auditor
08. Mr. P.S Edirisuriya - GM/ CEO (Covering up of Duties)
09. Mrs. H.M.N.M Herath - AGM - Risk Management
10. Mrs. T.K Wijerathne - AGM Compliance

Report of the Board Audit Committee is given on page 93 and forms a part of the Directors' Report.

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

01. Mr. K. Raveendran (Chairman of the Committee, resigned on 13.10.2023)
02. Mr. G.A.Jayashantha (resigned w.e.f. 11.09.2023)
03. Mr.S.N.B.M.W. Narayana (Chairman of the Committee, appointed on 30.10.2023)
04. Mr. Dushshantha Wijekoon - (Apointed on 30.10.2023)
05. Mr. Boshan H. Dayaratne (appointed on 13.07.2023)
06. Ms. Devika Silva - (appointed on 30.10.2023)
07 Mr. P.S. Edirisuriya – GM/CEO (Covering up of Duties)
08. Mrs. H.M.N.M.Herath – AGM – Risk Management
09. Mrs. T. K. Wijeratne - AGM - Compliance

Report of the Board Integrated Risk Management Committee is given on page 96 which forms part of the Directors' Report.

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

01. Mr. W.A.D.S. Gunasinghe (Chairman of the Committee, appointed on 05.12.2023)
02. Mr. Lalith Abeysiriwardena
03. Mrs. Hiranthi Karunaratne (resigned w.e.f. 12.09.2023)
04. Mr. G.A. Jayashantha (resigned w.e.f. 11.09.2023)
05. Mr. M.L.D.C.M. Abeywardana (appointed on 14.09.2023)
06. Mr.K.A.A.Karunaratna (appointed on 05.12.2023)
07. Mr. P.S. Edirisuriya – GM/CEO (Covering up of Duties)
08. Mr.K.S. Serasinghe - Chief Human Resource Officer

BOARD NOMINATION COMMITTEE

01. Mr. W.A.D.S. Gunasinghe (Chairman, appointed on 05.12.2023)
02. Mr. Lalith Abeysiriwardena
03. Mrs. Hiranthi Karunaratne (resigned w.e.f. 12.09.2023)
04. Mr. G.A. Jayashantha (resigned w.e.f. 11.09.2023)
05. Mr. M.L.D.C.M. Abeywardana (appointed on 14.09.2023)
06. Mr. K.A.A. Karunaratna (appointed on appointed on 05.12.2023)
07. Mr. P.S. Edirisuriya – GM/CEO (Covering up of Duties)
08. Mr.K.S. Serasinghe - Chief Human Resaurce Officer

DIRECTORS' MEETINGS

The number of Directors' meetings which comprise Board Meetings, Board Audit Committee Meetings, Board Integrated Risk Management Committee Meetings, Board Human Resource and Remuneration Committee Meetings, Board Nomination Committee Meetings, and the attendance of Directors at these meetings are given on Corporate Governance Report page 85 to 87 of this Annual Report.

DIRECTORS' INTEREST IN CONTRACTS

Directors' interest in contract with the bank both directly and indirectly are referred to in note 37 to the financial statements. The Directors do not have any other direct or indirect interest in contracts or proposed contracts with the bank.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed the transactions, if any, that could classify as related party transactions in terms of Sri Lanka Accounting Standards (LKAS24) Related Party Disclosures, which is adopted in the preparation of the Financial Statements. Those transactions disclosed by the Directors are given in Note 37 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 48 to 60 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 102 to 103. Board has obtained an Assurance Report from the Auditor General on Directors' Statement on Internal Control, which is given on page 100 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 63 to 84 for which the Board has obtained a Report of Factual Findings from the Auditor General.

COMPLIANCE WITH LAWS, REGULATIONS AND PRUDENTIAL REQUIREMENTS

The Bank has at all times ensured that it complied with Pradeshiya Sanwardana 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 2023.

By the order of the Board

Secretary to the Board

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 Specialised 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 adopted by the Board of Directors for the functioning of the Committee.

The committee comprises of following Non-Executive Directors.

- Mrs. K.E.Dilrukshi (Chairperson of the Committee)
- Mr.W.A.Sarath Kumara (resigned on 30.09.2023)
- Mr.D.Lalith Abeysiriwardena
- Mr.Boshan H. Dayaratna (appointed on 13.07.2023)
- Mr.Dushshantha Wijekoon (appointed on 30.10.2023)

The Board Secretary functions as the secretary to the BAC. The quorum for any meeting shall be three (03) members. General Manager/CEO, Chief Finance Officer, Chief Internal Auditor, Assistant General Manager (Risk Management) and Assistance 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 responsible for -

- Reviewing the financial reporting process to ensure the compliance with financial reporting requirements under the statute.
- Examining the system of internal control and management of business risks.
- Reviewing the audit processes, both external and internal.
- Reviewing the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.
- Reviewing and monitoring management's responsiveness to major findings and recommendations of the Chief Internal Auditor and actions taken by the management.

The Committee during the year under review attended to the following.
Approved the Internal Audit Plan prepared based on risk profiles of the Bank.

- Reviewed quarterly financial performance of the Bank for the year 2023 and recommended to submit the same to the Board.
- Reviewed and discussed issues raised at CBSL Statutory Examination.
- Reviewed internal audit reports and the performance of the Internal Audit Department.
- Reviewed the Management Letter and the responses made thereon by the management of the Bank and followed up the required corrective measures.
- Reviewed the special reports such as system related issues, deficiencies of Branch Operations etc. and reports of Head Office Departments.

Four (04) meetings were held during the financial year ended 31st December 2023. The BAC considered the internal audit reports, the deficiencies observed there In, responses given by the respective DGM/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.
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.

K.E Dilrukshi
Chairperson
Board Audit Committe

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE (BHRRC) AND 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 References (TOR).

THE SCOPE OF BHRRC INCLUDES,

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

THE SCOPE OF BNC INCLUDES,

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

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

COMPOSITION AND MEETINGS

Board Human Resources and Remuneration Committee and Board Nomination Committee meetings were headed by following Board Members in each meeting mentioned as follows.

COMPOSITION AND MEETINGS

BOARD NOMINATION COMMITTEE

27/03/2023	Mr. Lalith Abeysiriwardena
15/05/2023	Mr. Lalith Abeysiriwardena
12/09/2023	Mr. Lalith Abeysiriwardena
13/11/2023	Mr. Mahendra Abeywardena

BOARD HUMAN RESOURCES AND REMUNERATION COMMITTEE

27/03/2023	Mr. Lalith Abeysiriwardhena
15/05/2023	Mr. Lalith Abeysiriwardena
06/07/2023	Mr. Lalith Abeysiriwardena
31/07/2023	Mr. Lalith Abeysiriwardena
12/09/2023	Mr. Lalith Abeysiriwardena
13/11/2023	Mr. Mahendra Abeywardena

Six (06) Board Human Resources and Remuneration Committee meetings and Four (04) Board Nomination Committee meetings were held during the year ended 31st December 2023.
Chief Human Resources Officer shall present all the papers through General Manager/CEO (Covering up of duties) 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 members. 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. W.A.D.S.Gunasinghe – Chairman (Appointed w.e.f. December 05, 2023)	00/00
Mr. Lalith Abeysiriwardane – Director (appointed w.e.f. March 20, 2023)	06/06
Mr. Mahendra Abeywardana – Director (Appointed w.e.f. September 14, 2023)	01/01
Mrs. Hiranthi Karunaratne – Director (Resigned w.e.f. September 13, 2023)	03/05
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. W.A.D.S.Gunasinghe – Chairman (Appointed w.e.f. December 05, 2023) – Chairman	00/00
Mr. Lalith Abeysiriwardane – Director (appointed w.e.f. March 20, 2023)	04/04
Mr. Mahendra Abeywardana – Director (Appointed w.e.f. September 14, 2023)	01/01
Mrs. Hiranthi Karunaratne – Director (Resigned w.e.f. September 13, 2023)	02/03
Mr. P. S. Edirisuriya – General Manager/ CEO (Covering-up Duties)	
Mrs. R.M.T. Rajapakse – Board Secretary	

SUMMARY OF ACTIVITIES

In September 2023, in view of the resignation of Mrs. Hiranthi Karunaratne – Board Director, it was decided to appoint Mr. Mahendra Abeywardhane – 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.

W.A.D.S. Gunasinghe
Chairman
Board Human Resources and Remuneration Committee
Board Nomination Committee

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

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 18 to 21.

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

1.Mr. K.Raveendran - Board Director/Chairman of the Committee /Non-Executive Director)-Resigned on 13.10.2023.

2. Mr.G.A.Jayashantha -Board Director -Resigned on 11.09.2023.

3. Mr.S.N.B.M.W Narayana
Board Director (Committee Chairman from 28/11/2023)

4. Mr.Boshan H. Dayaratne
Board Director. (Appointment 07/03/2023)

5..Mr. Dushshantha Wijekoon
Board Director. (Appointment 29/08/2023)

6. Ms.Devika Silva
Board Director. (Appointment 11.10.2023)

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 2023.

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.

COMMITTEE

Name of the Committee member	Attendance
Mr.K.Raveendran Director	03/04
Mr.G.A.Jayashantha Director	03/04
Mr.S.N.B.M.W Narayana Director	03/04
Mr.Boshan H .Dayaratne Director	02/04
Mr.Dushshantha Wijekoon Director	01/04
Ms.Devika Silva Director	00/04

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 strategic risk of the Bank.

ACTIVITIES IN 2023

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 2023	
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.
Rescheduled Loan category up-grading policy	To establish a common approach to identify and make recommendation of upgrading impaired rescheduled non performing loan to performing loan stage.
Policies related to other functions of the Bank which has been reviewed and revised during the year 2023,	
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 2023	
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. Reviewed reports on Risk Appetite Framework and Risk Tolerance Limit, quarterly report on overall risk management aspect of the Bank.

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

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

6. 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.

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

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

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

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

11. Established the SLFRS 9 and implement the impairment and the Rescheduled Loan category up-grading of the Bank.

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

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

17. 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 2023, 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 2023 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

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 2023 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 106 to 108 of the Annual Report.

The Board Audit Committee reviews the adequacy and effectiveness of the Internal Control Systems including the effectiveness of the internal controls over financial reporting to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account and the processes by which compliance with the Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured. The Board Audit Committee Report is available on pages 93 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 40 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

30th May 2024

AUDITOR GENERAL'S REPORT ON THE STATEMENT OF INTERNAL CONTROL

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No.	BAN/E/RDB/IC/2023	ඔබේ අංකය / உமது இல. / Your No.		දිනය / திகதி / Date	20 August 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

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Introduction

This report is to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") of Pradeshiya Sanwardana Bank (the "Bank") included in the annual report for the year ended 31 December 2023.

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 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.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34 +94 11 2 88 72 23 ag@auditorgeneral.gov.lk www.naosl.gov.lk

Summary of work performed

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

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

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

The procedures selected depend on my judgment, 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 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 Board Audit Committee. Findings of the Internal Audit are submitted to the Board Audit Committee for review at the periodic meetings.

- The Board 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 Board Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

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

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors' statement on internal control for the year ended 31st December 2023 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 08, 08, 2024	Director	Director

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 106. 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 thereto.

The Directors acknowledge that in the preparation of Financial Statements for the ended 31st December 2023, 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 2023 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 2023.

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 102. and 103. 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 93 and 96 respectively of the Annual Report.

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

COMPLIANCE

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

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

By order of the Board.

Secretary to the Board
20, 05, 2024

“Seeds of prosperity; Banking for sustainable regional growth.”

Financial Report

AUDITOR GENERAL'S REPORT

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

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

Chairman
Regional Development Bank

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

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Regional Development Bank (the "Bank") for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the Financial Statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My report to parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

The other information comprises the information included in the Bank's 2023 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

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

When I read the Bank's 2023 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව   இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.   No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34   +94 11 2 88 72 23   ag@auditorgeneral.gov.lk   www.naosl.gov.lk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Report on Other Legal and Regulatory Requirements

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

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

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

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

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

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

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

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

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

W.P.C.Wickramaratne
Auditor General

INCOME STATEMENT

Year ended 31 December	Note	2023	2022
		Rs.	Rs.
Gross income	7	47,586,934,542	36,202,749,629
Interest income		46,232,790,959	35,273,433,857
Interest expenses		(29,289,826,032)	(19,639,529,550)
Net interest income	8	16,942,964,926	15,633,904,307
Fee and commission income		1,572,076,450	806,547,782
Fee and commission expenses		(409,406,671)	(355,184,923)
Net fee and commission income	9	1,162,669,779	451,362,859
Net trading gain/(loss)	10	(234,954,348)	102,296,546
Other operating income (net)	11	17,021,481	20,471,444
Total operating income		17,887,701,838	16,208,035,156
Impairment charges	12	(2,162,850,997)	(2,852,677,176)
Net operating income		15,724,850,842	13,355,357,980
Less-Operating expenses			
Personnel expenses	13	(9,550,728,566)	(8,739,537,602)
Depreciation and amortization expenses		(592,566,813)	(532,733,987)
Other expenses	14	(2,073,288,768)	(2,084,970,281)
Operating profit before taxes		3,508,266,695	1,998,116,109
Less : Value Added Tax on Financial Services		(2,066,232,496)	(1,561,474,848)
Social Security Contribution Levy		(258,613,077)	(77,525,933)
Profit before Income tax expense		1,183,421,122	359,115,329
Income tax (expense) /reversal	15	(319,903,305)	990,279,323
Profit for the year		863,517,816	1,349,394,652
Earnings per share			
Basic Earnings per share	16.1	1.54	2.45
Diluted Earnings per share	16.2	1.54	2.45

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 115 to 182.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2023	2022
		Rs.	Rs.
Profit for the year		863,517,816	1,349,394,652
Other Comprehensive income/(expenses)			
Other Comprehensive income not to be reclassified to profit or loss			
Actuarial gain on retirement benefit obligation	33.3	680,109,258	156,249,438
Deferred tax effect on above	27.1	(204,032,777)	(46,874,831)
Total Other Comprehensive income for the year, net of taxes		476,076,481	109,374,607
Total comprehensive income for the year		1,339,594,297	1,458,769,259

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 115 to 182.

STATEMENT OF FINANCIAL POSITION

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

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 115 to 182.

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
29 May 2024
Colombo

Director

STATEMENT OF CHANGES IN EQUITY

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

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 115 to 182.

STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2023	2022
		Rs.	Rs.
Cash flow from operating activities			
Profit before tax		1,183,421,122	359,115,328
Adjustment for:			
Non-cash items included in profit before tax			
Depreciation of property, plant and equipment/ Amortization of ROU	24	542,099,465	487,812,469
Amortization of intangible assets	25	62,778,029	46,808,061
Interest expense on leases	26.2	40,069,770	49,991,183
Interest expense on debentures		-	76,176,663
Dividend income	10	(3,279,463)	(4,384,680)
Impairment charges	12	2,162,850,997	2,852,677,176
Changes in equity Instruments at fair value through profit or loss	10	(25,540)	67,860
Exchange gain/ (loss)	10	238,259,352	(97,979,726)
Charge for retirement benefit obligation	33.1	708,495,411	567,113,577
(Profit) / loss on sale of Property, plant and equipment	11	1,221,778	93,147
Recoveries of NPL loans (Written Off)	11	(118,139)	(411,274)
Changes in operating assets			
Net change in loans and receivables from other customers		1,459,264,921	
Net Change in other assets		812,427,181	
Net change in Financial investments at amortised cost-Debt & other instruments		5,221,585,855	
Changes in operating liabilities			
Net change in due to banks		2,341,574,441	1,875,544,521
Net change in due to other customers		15,778,291,304	22,548,858,212
Net change in other liabilities		(921,288,969)	(651,469,639)
Gratutiy paid		(276,188,475)	(66,254,402)
Taxes on financial services			-
Tax Paid		(1,474,291,933)	(1,609,671,945)
Net cash generated from/(used in) operating activities		27,877,147,105	(8,887,027,959)
Cash flows from investing activities			
Purchase of Property, plant and equipment	24	(462,912,300)	(207,875,911)
Purchase of intangible assets	25	(106,975,432)	(1,987,025)
Investment in Fixed deposits (more than three months)	22.2	6,583,774,836	(17,403,319,430)
Proceeds from the sale of property, plant and equipment		1,221,778	(779,590)
Dividend Income Received	10	3,279,463	4,384,680
Net cash (used in)/from investing activities		6,018,388,346	(17,609,577,276)
Cash flows from financing activities			
Payment of principal of Operating Lease	26.2	(361,732,641)	(327,195,209)
Net proceeds from the Term Loans	29	(1,262,227,773)	15,494,249,151
Redemption of Debentures		-	(2,000,000,000)
Interest paid on debentures		-	(76,176,663)
Net cash from financing activities		(1,623,960,415)	13,090,877,278
Net increase/(decrease) in cash & cash equivalents		32,271,575,036	(13,405,727,957)
Cash & cash equivalents at the beginning of the year		30,165,020,556	43,570,748,513
Cash and cash at the end of the year		62,436,595,592	30,165,020,556

Year ended 31 December	Note	2023	2022
Reconsilation of cash and cash equivalent		Rs.	Rs.
Cash and cash equivalent	18	1,761,270,949	2,889,883,677
Favorable balances with banks			
Placements with Banks		61,128,549,024	6,133,705,350
Fixed deposits less than three months	22.2	1,203,602,353	21,726,025,221
Unfavorable balances with banks		(1,656,826,734)	(584,593,693)
		62,436,595,592	30,165,020,556

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Bank set out on pages 115 to 182.

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 2023 was 3,279 (3,980 as at 31 December 2022).

1.2 Principal Activities and Nature of Operation

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

1.3 Director’s Responsibility for Financial Statements

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

1.4 Approval of Financial Statements by Board of Directors

The Financial Statements of the Bank for the year ended 31 December 2023 were authorized for issue by the Board of Directors on 29 May 2024.

2. BASIS OF PREPARATION

2.1 Basis of Measurement

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

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

2.2 Statement of Compliance

The Financial Statements, as at 31 December 2023 and for the year then ended, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Banking Act No. 30 of 1988 and amendments thereto and Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto. The presentation of the financial statements is also in compliance with the requirements of the Pradeshiya Sanwardhana Banking Act No: 41 of 2008 and amendments thereto.

2.3 Functional and Presentation Currency

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

2.4 Materiality and Aggregation

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

2.5 Offsetting

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

2.6 Comparative Information

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

2.7 Presentation of Financial Statements

The items of the Bank presented in their Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42.

3. USE OF ESTIMATES AND JUDGEMENTS

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

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

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

(i) Judgements

(a) Classification of Financial Assets

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

(b) Assessment of Credit Risk

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

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

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

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

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

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

(c) Business combinations under common control

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

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

(ii) Assumptions and Estimation Uncertainty

Going Concern

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

Fair value of financial instruments

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

Taxation

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

Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, which results in adjustments to tax income and expenses and deferred tax amounts that were initially recorded in the Financial Statements, Note 15, Note 27 and Note 31.

Measurement of Defined Benefit Obligations

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

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.
The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates and the expected future salary increase rate of the Bank.

Useful Lifetime of the Property and Equipment

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

Commitments and Contingencies

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

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

4. CHANGES IN ACCOUNTING POLICIES

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

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

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

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

As at 31 December 2023, the IBORs for certain key currencies to which the Bank has exposure to are in the process of reforming.

5. SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.
The Accounting Policies have been applied consistently by the Bank except for the changes in accounting policies described in Note 4.

5.1 Financial Assets and Liabilities

5.1.1 Recognition and Initial Measurement

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

5.1.2 Classification of Financial Instruments

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

Day 1 profit or loss

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

5.1.2.1 Financial assets

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

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

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

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

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

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

The details of these conditions are outlined below.

Business model assessment

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

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

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

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

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

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

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

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

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

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

Financial assets fair value through profit or loss comprises:

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

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

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

Financial investments - for trading

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

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

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

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

5.1.2.1.3 Financial assets measured at fair value through other comprehensive income (FVTOCI)

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

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

5.1.2.2 Financial liabilities

The initial and subsequent measurement of financial liabilities depends on their classification as described below:
At the inception the Bank determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as.

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

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

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

5.1.2.2.2 Financial liabilities at amortised cost

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

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

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

5.1.2.3 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2023.

5.1.2.4 De-recognition of financial assets and liabilities

De-recognition due to substantial modification of terms and conditions

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

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

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

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

De-recognition other than for substantial modification

Financial assets

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

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

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

Or

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

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

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

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

A transfer only qualifies for de-recognition if either:

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

Or,

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

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred assets and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

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

Financial liabilities

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

5.1.2.5 Impairment

Recognition of ECL

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

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

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

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

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

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

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

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

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

The calculation of ECLs

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

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

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

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

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

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

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

The mechanics of the ECL method are summarized below:

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

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

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

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

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

Calculations of ECL for individually significant loans

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

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

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

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

Debt instruments measured at fair value through OCI

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

Purchased or originated credit impaired financial assets (POCI)

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

Forward looking information

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

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

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

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

5.1.3 Collateral valuation

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

5.1.3.1 Collateral repossessed

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

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

5.1.4 Write-offs

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

5.1.5 Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. De-recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

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

5.1.6 Foreclosed Properties

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

5.1.7 Offsetting Financial Instruments

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

5.2 Property, Plant and Equipment

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

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

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

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

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

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

5.3 Leases

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

5.3.1 Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative 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 at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the Income Statement.

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

- Computer software : 3 Years

5.5 Impairment of Non-financial Assets

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

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

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

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 2023 by Actuarial & Management Consultants (Pvt) Ltd, a qualified actuary using the projected unit credit method.

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

Funding Arrangements: The Gratuity liability is not externally funded.

5.7.3 Defined Contribution Pension Plan

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

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

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

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

5.8 Provisions

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

5.9 Recognition of Income and Expenses

5.9.1 Interest Income and Expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

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

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

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

5.9.2 Fees and Commission Income

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

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

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

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

5.9.3 Net Gains/ (Losses) from Trading

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

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

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

5.10 Taxation

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

5.10.1 Current Tax

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

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

5.10.2 Deferred Tax

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

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

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

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

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

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

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

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

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

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

5.10.3 VAT on Financial Services

The value base for Value Added Tax (VAT) for the Bank is the adjusted accounting profit before tax, emoluments of employees and economic depreciation computed for the owned fixed assets. The total value addition arrived for the entire bank has to be apportioned in accordance to the applicable turnover; turnover has to be quantified in line with the turnover applicable for general VAT and VAT on Financial Services. The Value Addition Attributable for Financial Services" shall be derived with the application of the turnover ratio distinguishing general VAT and VAT on Financial Services. Tax fraction 18/120.5 shall be applied on the value addition attributable to financial services in order to derive the total VAT liability for a particular period.

5.10.4 Withholding Tax (WHT) on Dividends

Dividends distributed out of profits after tax attract a 15% tax deduction in the hands of the dividend recipient (individuals are taxed at the progressive tax rates, 6%, 12% ,18%,24%,30% and balance 36%). Unlike in the period before January 2020, withholding tax on dividends is not a tax at source and it shall not be deducted at the time of dividends are distributed; the shareholders shall receive dividends at gross.

5.10.5 Social Security Contribution Levy (SSCL)

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

5.10.6 Crop Insurance Levy (CIL)

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

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

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

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

5.10.7 IFRIC 23 - Uncertainty over income tax treatment

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

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

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

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

5.11 Dividends on Ordinary Shares

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

5.12 Earnings per Share (EPS)

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

5.13 SLFRS 15 – Revenue from Contracts with Customers

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

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

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

5.14 Statement of Cash Flow

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

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

5.15 Reserves

5.15.1 Statutory Reserve Fund

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

5.15.2 General Reserve Fund

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

5.15.3 Special Reserve Fund

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

6 ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards (SLFRSs/ LKASs) which will become applicable for financial periods beginning after 1 January 2024. Accordingly, the following new and amended standards are not expected to have a significant impact on the Bank's Financial Statements.

6.1. Insurance Contracts (SLFRS 17)

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

07. GROSS INCOME

Year ended 31 December	2023 LKR	2022 LKR
Interest income (Note 8.1)	46,232,790,959	35,273,433,857
Fee and commission income (Note 9)	1,572,076,450	806,547,782
Net trading gain/(loss) (Note 10)	(234,954,348)	102,296,546
Other operating income (Note 11)	17,021,481	20,471,444
Total Gross Income	47,586,934,542	36,202,749,629

08. NET INTEREST INCOME

08.1 INTEREST INCOME

Year ended 31 December	2023 LKR	2022 LKR
Placements with banks	1,166,651,725	760,952,114
Financial assets at amortised cost		
Loans and receivables from other customers	32,217,022,242	25,287,684,763
Debt & other instruments	12,849,116,992	9,224,796,980
Total interest income	46,232,790,959	35,273,433,857

08.2 INTEREST EXPENSE

Year ended 31 December	2023 LKR	2022 LKR
Due to banks	(3,015,879,185)	(2,149,689,728)
Due to other customers	(26,233,102,258)	(17,607,209,517)
Interest expense on lease liabilities	(40,844,590)	117,369,695
Total interest expenses	(29,289,826,032)	(19,639,529,550)
Net interest income	16,942,964,926	15,633,904,307

09. NET FEE AND COMMISSION INCOME

Year ended 31 December	2023 LKR	2022 LKR
Fee and commission income	1,572,076,450	806,547,782
Fee and commission expenses	(409,406,671)	(355,184,923)
Net fee and commission income	1,162,669,779	451,362,859

COMPRISING

Year ended 31 December	2023 LKR	2022 LKR
Loans	1071,934,838	709,899,122
Trade & remittances	12,417,741	9,638,064
Deposits	(363,319,354)	(320,923,518)
Others	441,636,553	52,799,191
Net fee & commission income	1,162,669,779	451,362,859

10. NET TRADING GAIN/(LOSS)

Year ended 31 December	2023 LKR	2022 LKR
Financial assets recognised through profit or loss - fair value change	25,540	(67,860)
Exchange (loss)/ gain	(238,259,352)	97,979,726
Dividend income	3,279,463	4,384,680
Total	(234,954,348)	102,296,546

11. NET OTHER OPERATING INCOME

Year ended 31 December	2023 LKR	2022 LKR
Gain/ (Loss) on disposal of property, plant and equipment	1,221,778	93,147
Recovery of loans written off	118,139	411,274
Other income	15,681,564	19,967,023
Total	17,021,481	20,471,444

12. IMPAIRMENT CHARGES

Year ended 31 December	2023 LKR	2022 LKR
Financial assets at amortised cost - Loans and receivables from other customers (Note 21.2)	(2,124,110,205)	(2,848,036,496)
Financial assets measured at amortised cost - debt and other instruments (Note 22.3)	466,924	(1,065,829)
Undrawn credit commitments and financial guarantees (Note 39.1.1)	(39,207,716)	(3,574,850)
Net impairment (charge) / reversal for loans and other losses	(2,162,850,997)	(2,852,677,176)

13. PERSONNEL EXPENSES

Year ended 31 December	2023 LKR	2022 LKR
Salary and bonus	5,969,282,386	5,596,751,248
Contributions to EPF/ETF	873,336,033	872,212,354
Contributions to defined benefit plans	730,744,301	620,181,014
Others	1,977,365,846	1,650,392,987
Total	9,550,728,566	8,739,537,602

14. OTHER EXPENSES

Year ended 31 December	2023 LKR	2022 LKR
Directors' emoluments	1,992,667	4,248,060
Auditors' remunerations	3,000,000	2,285,841
Professional and legal expenses	3,407,807	21,347,210
Office administration and establishment expenses	1,654,932,566	1,396,364,812
Computerization expenses	175,457,973	436,221,334
Business tax expenses	1,698,544	1,636,420
Other commission paid	248,351	335,352
Deposit Insurance Premium	216,390,450	203,169,932
Crop insurance levy	8,635,031	13,551,052
Staff security deposits interest	7,492,218	5,814,102
Capital loss on pawning advance	33,162	(3,834)
Total	2,073,288,768	2,084,970,281

15. INCOME TAX EXPENSE

15. 1 AMOUNTS RECOGNISED IN PROFIT OR LOSS

Year ended 31 December	2023 LKR	2022 LKR
Current Tax Expense		
Tax on current year's profits (Note 15.3)	129,272,120	1,301,405,280
Under/(Over) provision in respect of previous years	(170,493,912)	16,570,076
	(41,221,792)	1,317,975,356
Deferred Tax Expense		
Reversal on temporary differences (Note 27.2)	361,125,098	(2,308,254,679)
	361,125,098	(2,308,254,679)
Total income tax expense recognised in profit or loss	319,903,305	(990,279,323)

15.2 AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

Year ended 31 December	2023 LKR	2022 LKR
Deferred Tax Expense		
Reversal on temporary differences (Note 27.2)	204,032,777	46,874,831
Total income tax expense recognised in other comprehensive income	204,032,777	46,874,831

15.3 RECONCILIATION OF THE ACCOUNTING PROFIT TO INCOME TAX EXPENSE

Year ended 31 December	2023 LKR	2022 LKR
Profit before income tax expense	1,183,421,122	359,115,328
Exempt income		
Interest Income	(2,625,748,733)	(1,705,392,315)
Add : Disallowable expenses	6,841,510,876	6,902,036,608
Less : Allowable expenses	(4,968,276,200)	(733,790,790)
Taxable Income from Business	430,907,065	4,821,968,832
Tax liability for the year ending	30%/15%	30%/15%
Tax @ 30%	129,272,120	1,300,747,721
Tax @ 15%	-	657,559
Tax on current year's profits	129,272,120	1,301,405,280
Deferred tax reversal (Note 27.2)	361,125,098	(2,308,254,679)
Under/(Over) provision in respect of previous years	(170,493,912)	16,570,076
Income tax expense	319,903,305	(990,279,323)
Effective current tax rate	27.03%	-275.76%

15.4 RECONCILIATION OF EFFECTIVE TAX RATE

Year ended 31 December	2023		2022	
	%	Rs.	%	Rs.
Profit before income tax expense		1,183,421,122		359,115,328
Income tax for the period	30.00%	355,026,336	27.00%	96,961,139
Tax effect of expenses that are not deductible for tax purposes	173.43%	2,052,453,263	518.93%	1,863,549,884
Tax effect of expenses that are deductible for tax purposes	-125.95%	(1,490,482,860)	-55.50%	(199,307,377)
Exempt income	-66.56%	(787,724,620)	-128.22%	(460,455,925)
Tax on Dividend Income	0.00%	-	0.18%	657,559
Deferred tax reversal (Note 27.2)	30.5%	361,125,098	-642.8%	(2,308,254,679)
(Over)/ under provision in respect of previous years	-14.41%	(170,493,912)	4.61%	16,570,076
Total Income Tax Expense	27.03%	319,903,305	-275.76%	(990,279,323)

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

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

15.5 SURCHARGE TAX LEVIED UNDER SURCHARGE ACT NO.14 OF 2022 (ST ACT)

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

16. EARNINGS PER SHARE

16.1 BASIC EARNINGS PER SHARE

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

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

16.2 Diluted Earnings per Share

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

17. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

As at 31 December 2023	Note	Financial assets measured at fair value through other profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
		Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and cash equivalent	18	-	104,444,214		104,444,214
Placements with banks	19	-	6,005,330,402	-	6,005,330,402
Equity Instruments at fair value through profit or loss	20	145,820	-	-	145,820
Financial assets at amortised cost-Loans and receivables from other customers	21	-	194,424,888,169	-	194,424,888,169
Financial investments at amortised cost-Debt & other instruments	22	-	86,964,714,682	-	86,964,714,682
Equity Instruments at fair value through other comprehensive income	23	-	-	2,290,929	2,290,929
Other financial assets	28	-	4,431,547,579	-	4,431,547,579
Total financial assets		145,820	291,930,925,047	2,290,929	291,933,361,796

As at 31 December 2023	Note	Financial Liabilities measured at fair value through other profit or loss	Financial Liabilities measured at amortised cost	Financial Liabilities measured at fair value through other comprehensive income	Total
Financial Liabilities					
Due to banks	29	-	46,208,479,283	-	46,208,479,283
Due to other customers	30	-	226,079,614,772	-	226,079,614,772
Other liabilities	32	-	5,446,759,311	-	5,446,759,311
Total financial liabilities		-	277,734,853,367	-	277,734,853,367

As at 31 December 2022	Note	Financial assets measured at fair value through other profit or loss	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Financial Assets					
Cash and cash equivalent	18	-	2,889,883,677	-	2,889,883,677
Placements with banks	19	-	6,133,705,351	-	6,133,705,351
Financial assets held-for-trading/Equity Instruments at fair value through profit or loss	20	120,280	-	-	120,280
Financial assets at amortised cost-Loans and receivables from other customers	21	-	198,008,145,156	-	198,008,145,156
Financial assets at amortised cost-Debt & other instruments	22	-	65,079,635,909	-	65,079,635,909
Equity Instruments at fair value through other comprehensive income	23	-	-	2,289,919	2,289,919
Other financial assets	28	-	6,018,325,952	-	6,018,325,952
Total financial assets		120,280	278,129,696,045	2,289,919	278,132,106,244

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

18. CASH AND CASH EQUIVALENTS

Year ended 31 December	2023 LKR	2022 LKR
Cash in hand	959,534,987	919,970,763
Other bank balances	(855,090,773)	1,969,912,914
Tax effect of expenses that are not deductible for tax purposes	104,444,214	2,889,883,677

19. PLACEMENTS WITH BANKS

Year ended 31 December	2023 LKR	2022 LKR
Money market placements	6,005,330,402	6,133,705,351
Total placements with banks	6,005,330,402	6,133,705,351

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023			2022		
	" No. of Shares "	" Cost of Investment " LKR	" Market Value " LKR	" No. of Shares "	" Cost of Investment " LKR	" Market Value " LKR
Quoted Equities						
People's Merchant Bank PLC	600	5,160	2,820	600	5,160	2,280
Seylan Development PLC	10,000	140,000	143,000	10,000	140,000	118,000
	10,600	145,160	145,820	10,600	145,160	120,280

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

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

21.1 ANALYSIS OF FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES FROM OTHER CUSTOMERS

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

21.2 EXPECTED CREDIT LOSS ALLOWANCE

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

21.3 ANALYSIS OF LOANS AND RECEIVABLES FROM OTHER CUSTOMERS BASED ON EXPOSURE TO CREDIT RISK

As at 31 December 2023	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Individually impaired loans	-	1,458,354,115	2,153,713,083	3,612,067,199
Loans subjected to collective impairment				
Term Loan Other	5,597,069,140	739,454,899	422,471,364	6,758,995,404
Term Loan Industrial	4,065,980,847	5,083,674,724	4,443,670,695	13,593,326,266
Term Loan Commercial	8,715,895,035	9,192,642,333	5,378,584,661	23,287,122,029
Term Loan Agriculture	7,730,302,712	6,391,049,132	3884,049,424	18,005,259,075
Term Loan Housing	29,583,172,767	8,598,480,015	5,997,021,267	44,177,471,509
Refinance	17,756,076,907	14,839,465,051	5,504,071,817	38,099,613,775
Liyaisura	345,591	247,160	30,045,318	30,638,070
Pawning	41,210,085,185	3,537,632,063	852,562,162	45,600,279,410
Leasing	476,973,380	205,991,581	78,141,527	761,106,488
Staff loans	5,797,009,241	41,504,149	25,835,170	5,864,348,559
Loans Against Deposits	12,900,747,141	615,558,439	537,991,355	14,054,296,935
SME			118,110,361	118,110,361
Gross loans to & receivable from other customers	133,833,657,946	50,704,053,662	29,426,643,602	213,962,635,079
Impairment for expected credit losses	(2,664,594,416)	(4,643,800,205)	(10,603,461,880)	(17,911,856,501)
Net loans to & receivable from other customers *	131,169,063,530	46,060,253,457	18,823,181,721	196,050,778,578

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

* before zero rated loan and staff loan adjustments

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

As at 31 December	2023 LKR	2022 LKR
Quoted debentures (Note 22.1)	623,946,610	623,946,610
Government debt securities-Treasury Bills	55,123,218,622	6,151,823,192
Government debt securities-Treasury Bonds	5,355,440,338	5,336,026,214
Investment in Fixed Deposits (Note 22.2)	25,864,468,910	52,970,666,614
Total financial assets at amortised cost	86,967,074,481	65,082,462,630
Less: Expected Credit Loss Allowance (Note 22.3)	(2,359,798)	(2,826,721)
Net financial assets at amortised cost	86,964,714,682	65,079,635,909

22.1 QUOTED DEBENTURES

	2023			2022		
	" No of Debentures "	" Cost of Investment " LKR	"Amortized Cost" LKR	" No of Debentures "	" Cost of Investment " LKR	Amortized Cost LKR
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	2023 LKR	2022 LKR
Fixed deposits less than three months	1,203,602,353	21,726,025,221
Fixed deposits more than three months	24,660,866,557	31,244,641,393
Total	25,864,468,910	52,970,666,614

22.2.1 ANALYSIS OF FINANCIAL ASSETS AT AMORTISED COST - DEBT AND OTHER INSTRUMENTS

As at 31 December	2023 LKR	2022 LKR
22.2.1.1 By Currency		
Sri Lankan Rupee	1,203,602,353	21,726,025,221
United States Dollar	24,660,866,557	31,244,641,393
Total Financial assets measured at amortised cost	25,864,468,910	52,970,666,614
22.2.1.2 By Collateralisation		
Pledged as collateral	9,161,484,023	10,051,950,266
Unencumbered	16,702,984,887	42,918,716,348
Total Financial assets measured at amortised cost	25,864,468,910	52,970,666,614
22.2.1.3 Reconciliation for Financial Assets Measured at Amortised Cost - Debt and Other Instruments		
Balance as at 1 January	12,126,553,139	5,435,733,610
Net Acquisitions and Maturities during the Year	48,976,052,432	6,693,646,250
Less: Expected Credit Loss Allowance (Note 22.3)	(2,359,798)	(2,826,721)
Balance as at 31 December	61,100,245,774	12,126,553,139

22.3 EXPECTED CREDIT LOSS ALLOWANCE

As at 31 December	2023 LKR	2022 LKR
Balance as at 1st January	2,826,721	1,760,892
Net Charge (Reversal) for the year	(466,924)	1,065,829
Balance as at 31 December	2,359,798	2,826,721

23. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	2023 LKR	2022 LKR
Unquoted Equity Securities (Note 23.1)	2,290,929	2,289,919
	2,290,929	2,289,919

23.1 UNQUOTED EQUITY SECURITIES

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

24. PROPERTY, PLANT AND EQUIPMENT

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

24. PROPERTY, PLANT AND EQUIPMENT (CONTD...)

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

24.1 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

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

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

24.2 TITLE RESTRICTIONS ON PROPERTY, PLANT AND EQUIPMENT

There were no title restrictions on property, plant and equipment of the Bank as at the reporting date.

24.3 PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY FOR LIABILITIES

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

24.4 COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT AND EQUIPMENT

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

24.5 TEMPORALLY IDLE PROPERTY, PLANT AND EQUIPMENT

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

24.6 FREEHOLD LANDS AND BUILDINGS

The details of freehold land and buildings held by the Bank as at 31st December 2023 are as follows:

Name of Premises and address	Date of valuation	Cost of Land	Cost of Building	Total Value	Accumulated Depreciation	Written down value
H/O - No 933, Kandy Rd, Wedamulla, Kelaniya	March 5, 2012	143,064,464	139,371,952	282,436,416	70,750,632	211,685,784
Central Province				-		-
Matale -No 62, Main Street, Matale	December 26, 2014	-	11,915,631	11,915,631	5,370,195	6,545,436
Dambulla - No734, Anuradhapura Road, Dambulla	December 18, 2003	565,000	2,286,908	2,851,908	2,286,907	565,001
Wilgamuwa -Hettipola, Wilgamuwa	August 24, 2009	-	7,581,277	7,581,277	6,039,268	1,542,009
Agarapathana - No158, Hoolbrook, Agarapatana	August 17, 2012		1,260,000	1,260,000	719,999	540,001
Naula- 26,Dambulla Road,Naula	February 25, 1998	2,471,252	8,600,539	11,071,791	4,301,189	6,770,602
Laggala-New Town -Laggala		-	23,565,250	23,565,250	5,407,095	18,158,155
North Central Province				-		-
Mihinthale - Trincomalee Road, Mihinthale	December 30, 2005	0	8,859,427	8,859,427	7,965,314.00	894,113
Medawachchiya - Mannar Road, Madawachchiya	March 19, 2013	-	16,192,223	16,192,223	8,905,722.65	7,286,500
Galenbindunuwewa - Pola Road, Galenbidunuwewa	March 14, 2013	-	5,820,073	5,820,073	3,025,164.55	2,794,908
Medirigiriya - Main Street, Madirigiriya	December 31, 2007	-	9,643,650	9,643,650	7,723,563.60	1,920,087
Siripura - New Town, Siripura	February 24, 2016	-	22,291,625	22,291,625	8,752,203.74	13,539,422
Thirappane - Kandy Road, Thirappane	December 8, 2016	379,869.25	46,150,602	46,530,472	12,272,800.09	34,257,671
No.343,Mosque Road,Stage 01,Anuradhapura			125,000	125,000	31,250.00	93,750
North Western Province				-	-	-
Mawathagama - Kandy Road, Mawathagama	March 3, 2016	10,801,311		10,801,311	-	10,801,311
P/O Kurunegala - No 155, Negombo Rd, Kurunegala	December 29, 2004	-	18,227,912	18,227,912	11,536,423.06	6,691,489
Polpithigama - Kurunegala Road,Polpitigama	December 30, 2014	-	16,782,785	16,782,785	7,364,469.28	9,418,316
Mampuri - Kalpitiya Road, Mampuri	December 30, 2014	-	25,188,128	25,188,128	11,155,754.37	14,032,374
Palakuda - Kalpiti Road, Thalawila	March 25, 2003	-	5,792,157	5,792,157	4,061,528.73	1,730,629
Nattandiya - Marawila Road, Naththandiya	February 11, 2003	-	36,799,082	36,799,082	9,351,389.12	27,447,693
Wariyapola-No 29/4,Adhikari Mawatha,Wariyapola.	November 12, 2013	-	35,609,963	35,609,963	13,488,316.20	22,121,647
29/4 Adikari Mawatha, Wariyapola - District office	July 2, 2023	9,586,744	-	9,586,744	-	9,586,744
Puttalm 618/Puttlam South - Lease hold Building		7,321,062	-	7,321,062	317,663.87	7,003,398
Southern Province				-	-	-
Kekanadura - Weherahena Rd, Kekanadura	May 10, 2004	1,418,000	1,194,535	2,612,535	1,074,809	1,537,726
Akmeemana - Ganegoda, Akmeemana	October 2, 1993	-	1,039,150	1,039,150	602,285	436,865
Galle Branch - No 301, Matara rd, Magalle, Galle	October 9, 1999	-	8,894,553	8,894,553	4,235,119	4,659,434
Katuwana - Uda Gomadiya Road, Katuwana	March 22, 2001	1,320,000	7,406,958	8,726,958	6,664,571	2,062,387
Tangalle - 81, Beliatta Road, Tangalle	May 5, 2005	1,620,667	1,675,534	3,296,201	1,675,533	1,620,668
Uragasmanhandiya - Kosgoda Road,Uragasman-handiya	April 10, 2012	-	13,354,618	13,354,618	7,162,100	6,192,518
Ambalantota - 139,Hambantota Road,Ambalantota	August 30, 2004	2,000,000	3,070,100	5,070,100	2,762,389	2,307,711
Agunakolapelessa,Ranna Road,Agunakolapelessa	August 27, 2001	-	3,470,348	3,470,348	2,582,774	887,574
D/O Galle - No 301, Matara rd, Magalle, Galle	October 8, 1999	1,750,000	4,884,716	6,634,716	4,117,844	2,516,872

No.01,Galwala Road,Hambantota			33,088,400	33,088,400	18,087,763	15,000,636
Thalgaswala	May 26, 2022	3,004,320		3,004,320	-	3,004,320
Uva Province				-	-	-
Girandurukotte - Development Centre,Girandurukotte	November 30, 2011		3,227,674.2	3,227,674	2,008,302	1,219,372
Monaragal D/O-Monaragala Road,Buttala.	October 22, 1999	3,162,263		3,162,263	2,921,157	241,106
Bandarawela Lease hold Premises	February 18, 2013	1,150,000	-	1,150,000	-	1,150,000
Sabaragamuwa Province				-		-
Balangoda - No17,Rest House Approach Road,Balangoda	February 18, 2013	6,679,574		6,679,574	-	6,679,574
Eastern Province				-		-
Swiss Village, Batticaloa,		173,370		173,370		173,370
Clock tower junction, front of bus stand, Ampara		468,550		468,550		468,550
Eastern Province - Dehiattakandiya			5,778,419	5,778,419	556,470	5,221,949
Total		196,936,446	529,149,190	726,085,636	255,277,966	470,807,671

25 INTANGIBLE ASSETS

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

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

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

26 LEASES

Leases as lessee

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

26.1 RIGHT OF USE ASSETS

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

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

26.2 LEASE LIABILITIES

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

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

26.2.1 MATURITY ANALYSIS OF LEASE LIABILITY - CONTRACTUAL UNDISCOUNTED CASHFLOWS

As at 31 December	2023 LKR	2022 LKR
Less than one year	51,397,916	48,815,297
One to five years	887,070,235	763,840,507
	938,468,151	812,655,804

26.3 AMOUNTS RECOGNISED IN PROFIT OR LOSS

As at 31 December	2023 LKR	2022 LKR
Interest on lease liability	40,069,770	49,991,183
Amortisation charge for the year	314,601,018	277,056,739
	354,670,788	327,047,922

26.4 AMOUNTS RECOGNISED IN STATEMENT OF CASH FLOWS

As at 31 December	2023 LKR	2022 LKR
Lease rental payments	361,732,641	327,195,209
	361,732,641	327,195,209

27. DEFERRED TAX ASSETS/ LIABILITIES

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

27.1 AMOUNTS RECOGNIZED IN THE INCOME STATEMENT

As at 31 December	2023 LKR	2022 LKR
Recognized in profit or loss	361,125,098	(2,308,254,679)
Recognized in other comprehensive income	204,032,777	46,874,831

27.2 MOVEMENT IN DEFERRED TAX BALANCES

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

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

28. OTHER ASSETS

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

29. DUE TO BANKS

As at 31 December	2023 LKR	2022 LKR
Borrowings	26,688,177,339	31,220,478,612
Leasing (Note 29.1)	96,000	96,000
Refinance	19,520,205,944	16,250,132,445
Total due to banks	46,208,479,283	47,470,707,056
Maturity of the leasing		
As at 31st December	2023	2022
Not later than 1 year	96,000	96,000
	96,000	96,000
Less - Interest in suspense		
Total	96,000	96,000

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

As at 31 December	2023 LKR	2022 LKR
Due to other customers	226,079,614,772	210,301,323,468
Total financial liabilities at amortised cost - due to other customers	226,079,614,772	210,301,323,468
Analysis of financial liabilities at amortised cost - due to other customers		
By product		
Savings deposits	44,208,976,801	40,472,860,914
Long term savings	25,856,165,440	25,379,586,421
Fixed deposits	156,014,472,532	144,448,876,133
Total financial liabilities at amortised cost	226,079,614,772	210,301,323,468
By currency		
Sri Lankan rupee	226,079,614,772	210,301,323,468
Total financial liabilities at amortised cost	226,079,614,772	210,301,323,468
By maturity		
Due within one year	192,704,887,810	153,700,366,310
Due after one year	33,374,726,962	56,600,957,158
Total financial liabilities at amortised cost	226,079,614,772	210,301,323,468

31. CURRENT TAX LIABILITIES

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

32. OTHER LIABILITIES

As at 31 December	2023 LKR	2022 LKR
Financial Liabilities		
Sundry creditors	387,530,967	1,948,511,439
Other payables	4,119,557,073	3,867,818,680
Inter bank transaction in transit	1,203,121	1,662,616
Operating Lease Liability (Note 26.2)	938,468,151	812,655,804
	5,446,759,311	6,630,648,539
Non Financial Liabilities		
Other payables	1,241,194,421	860,174,209
Impairment provision for expected credit losses - credit related commitment and contingencies	46,090,572	6,882,856
	1,287,284,993	867,057,065
Total	6,734,044,304	7,497,705,604

33. RETIREMENT BENEFIT OBLIGATION

As at 31 December	2023 LKR	2022 LKR
Retirement Benefit Obligation (Note 33.1)	2,829,577,605	3,091,581,136
	2,829,577,605	3,091,581,136

33.1. NET ASSET /(LIABILITY) RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION

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

33.2. AMOUNT RECOGNISED IN STATEMENT OF PROFIT OR LOSS

As at 31 December	2023 LKR	2022 LKR
Current Service cost	152,010,807	216,770,132
Interest Cost	556,484,604	350,343,445
Total amount recognised in Statement of Profit or Loss	708,495,411	567,113,577

33.3. AMOUNT RECOGNISED IN STATEMENT OF OTHER COMPREHENSIVE INCOME

As at 31 December	2023 LKR	2022 LKR
Net Actuarial (Gain)/Loss on obligation	(680,109,258)	(156,249,438)
Total amount recognised in Other Comprehensive Income	(680,109,258)	(156,249,438)

33.4. ACTUARIAL ASSUMPTIONS

An actuarial valuation of the gratuity fund was carried out as at 31st December 2023 by Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Method (PUC)", recommended by Sri Lanka Accounting Standard – LKAS 19 (Employee Benefits).

Actuarial Assumptions	2023	2022
Discount rate as at 31st December	12.80%	18.00%
Future salary increment rate	8% P.A.	15% P.A.
Mortality	A1967/70 Mortality Table issued by the Institute of Actuaries	A1967/70 Mortality Table issued by the Institute of Actuaries
Retirement age	60 Years	60 Years

33.5. SENSITIVITY OF ASSUMPTIONS USED IN THE ACTUARIAL VALUATION

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

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

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

34. STATED CAPITAL

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

35. STATUTORY RESERVE FUND

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

36. OTHER RESERVES

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

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

37. RELATED PARTY DISCLOSURES

The Bank has entered into transactions with the parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 -" Related Party Disclosures" i.e. significant investors, Key Management Personnel (KMPs), Close Family Members (CFMs) of KMPs and other related entities. Those transactions include lending activities, acceptance and placements, off balance sheet transactions and provision of other banking and financial services that are carried out in the ordinary course of business on an arm's length basis at commercial rates, except for the transactions that KMPs have availed under schemes uniformly applicable to all the staff at concessionary rates.

37.1. KEY MANAGEMENT PERSONNEL OF THE BANK

As per the Sri Lanka Accounting Standard -LKAS 24 - "Related Party Disclosures", the KMPs includes those who are having authority and responsibility for planning, directing and controlling the activities of the Bank. KMPs include the members of the Board of Directors of the Bank, the Chief Executive Officer, Deputy General Managers, Senior Assistant General Managers, Regional General Managers, Compliance Officer, Chief Internal Auditor and Board Secretary.

37.1.1. KEY MANAGEMENT PERSONNEL COMPENSATION

	2023 LKR	2022 LKR
Key management personnel compensation comprised the following		
Short term employment benefits	114,446,682	160,829,395
Post employment benefits	-	-
	114,446,682	160,829,395

37.1.2. TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KMP AND THEIR CLOSE FAMILY MEMBERS (CFM)

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

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

37.1.2.1. TERMS AND CONDITIONS OF THE ACCOMMODATION GRANTED TO KMPS AND THEIR CFMS

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

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

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

37.2. TRANSACTIONS WITH THE GOVERNMENT OF SRI LANKA/ ENTITIES CONTROLLED, JOINTLY CONTROLLED, SIGNIFICANTLY INFLUENCED BY THE GOVERNMENT OF SRI LANKA

In accordance with Sri Lanka Accounting Standard LKAS 24 on "Related Party Disclosures", the Bank has exempted from the disclosure requirements under paragraph 18 on transactions with Government of Sri Lanka, significant investor and its related entities.

A number of entities in which the Government of Sri Lanka has an interest, have significant interests in the Bank.

The Bank has disclosed individually significant transactions and other transactions collectively, but not individually with significant investor and related entities under LKAS 24. The Bank has entered into transactions, arrangements and agreements with the Government of Sri Lanka and its related entities. The significant financial dealings during the year and as of the date of the Statement of Financial Position are as follows:

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

37.2.1. FURTHER TRANSACTIONS AS DETAIL BELOW, RELATING TO THE ORDINARY COURSE OF BUSINESS, ARE ENTERED INTO WITH THE GOVERNMENT OF SRI LANKA AND ITS RELATED ENTITIES:

- Investment in Treasury Bills and money market placements
- Payment of statutory rates and taxes
- Payment for utilities mainly comprising of telephone, electricity and water
- Payment for employment retirement benefits - (EPF ,ETF)

37.3. PRICING POLICY WITH RELATED PARTIES

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

38. ASSETS PLEDGED AS SECURITY

The total financial assets recognized in the statement of financial position that had been pledged as collateral for liabilities as at 31 December 2023 and 2022 is shown in the following table:

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

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

39. CONTINGENT LIABILITIES AND COMMITMENTS

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

These contingencies and commitments are quantifies below:

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

39.1. ANALYSIS OF COMMITMENT AND CONTINGENCY EXPOSURE TO CREDIT RISK

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

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

39.1.1 EXPECTED CREDIT LOSS ALLOWANCE

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

39.2. ASSESSMENT RECEIVED BY THE BANK

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

Income Tax

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

Value Added Tax

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

40. LITIGATIONS AGAINST THE BANK

Litigation is a common occurrence in the banking industry due to nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of possible losses reasonably estimated, the bank makes adjustments to accounts for adverse effects for which the claims may have on its financial standing. As at 31/12/2023, the Bank has 36 legal claims against the Bank and all material claims have been adequately provided for. The Legal Department of the Bank is of the view that currently pending litigations against the Bank will not have a material impact on the reported financial results or the future operations of the bank.

41. EVENTS AFTER THE REPORTING DATE

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

42. CURRENT VS NON CURRENT ANALYSIS

As at 31 December 2023	Within 12 Months LKR	After 12 Months LKR	Total LKR
Assets			
Cash and cash equivalent	104,444,214	-	104,444,214
Placements with banks	6,005,330,402	-	6,005,330,402
Equity Instruments at fair value through profit or loss	145,820	-	145,820
Financial assets at amortised cost-Loans and receivables from other customers	88,522,864,760	105,902,023,409	194,424,888,169
Financial assets at amortised cost-Debt & other instruments	81,609,274,344	5,355,440,338	86,964,714,682
Equity Instruments at fair value through other comprehensive income	-	2,290,929	2,290,929
Property, plant and equipment	-	1,161,828,361	1,161,828,361
Intangible assets	-	112,402,355	112,402,355
Right of use assets	-	860,244,061	860,244,061
Deferred tax assets	-	2,960,017,044	2,960,017,044
Other assets	3,414,214,447	3,706,917,155	7,121,131,601
Total assets	179,656,273,987	120,061,163,652	299,717,437,639
Liabilities			
Due to banks	3,514,258,294	42,694,220,989	46,208,479,283
Due to other customers	166,274,427,218	59,805,187,554	226,079,614,772
Debt issued and other borrowed funds	-	-	-
Current tax liabilities	-	-	-
Other liabilities	3,732,121,974	3,001,922,329	6,734,044,304
Retirement benefit obligation	299,493,340	2,530,084,265	2,829,577,605
Total liabilities	173,820,300,826	108,031,415,137	281,851,715,965
Maturity Gap	5,835,973,161	12,029,748,514	17,865,721,674
Cumulative Gap	5,835,973,161	17,865,721,675	-

As at 31 December 2022	Within 12 Months LKR	After 12 Months LKR	Total LKR
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 receiv-ables from other customers	51,925,223,135	146,082,922,020	198,008,145,155
Financial assets at amortised cost-Debt & other instru-ments	59,743,609,694	5,336,026,214	65,079,635,908
Equity Instruments at fair value through other compre-hensive income	-	2,289,919	2,289,919
Property, plant and equipment	-	926,615,241	926,615,241
Intangible assets	-	68,867,744	68,867,744
Right of use assets	-	718,096,698	718,096,698
Deferred tax assets	-	3,525,174,919	3,525,174,919
Other assets	3,426,030,585	4,616,584,965	8,042,615,549
Total assets	124,118,572,723	161,276,577,720	285,395,150,443
Liabilities			
Due to banks	3,459,855,516	44,010,851,540	47,470,707,056
Due to other customers	151,286,336,343	59,014,987,125	210,301,323,468
Debt issued and other borrowed funds	2,000,000,000	-	2,000,000,000
Current tax liabilities	1,011,924,146	-	1,011,924,146
Other liabilities	3,732,121,974	3,561,365,287	7,293,487,261
Retirement benefit obligation	299,493,340	2,792,087,796	3,091,581,136
Total liabilities	161,789,731,318	109,379,291,749	271,169,023,067
Maturity Gap	(37,671,158,596)	51,897,285,971	14,226,127,375
Cumulative Gap	(37,671,158,596)	14,226,127,376	-

43. FINANCIAL RISK MANAGEMENT

43.1 INTRODUCTION AND OVERVIEW

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

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

43.1.1 RISK MANAGEMENT FRAMEWORK

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

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

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

43.1.2 ASSET AND LIABILITY COMMITTEE (ALCO)

ALCO is chaired by the General Manager and has representatives from Finance Department, Credit Department, Operation Department and Risk Department. The Committee meets regularly to monitor and manage the assets & liabilities of the Bank and also overall liquidity position to keep the Bank's liquidity at healthy levels, whilst satisfying regulatory requirements.

43.1.3 RISK MEASUREMENT & REPORTING

The Bank's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Bank also carries out Stress Testing to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to Integrated Risk Management Committee on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept (Risk Appetite).

43.1.4 RISK MITIGATION

As part of its overall risk management, the Bank obtains various types of collaterals to mitigate the risk. Details such as nature of the collateral that could be accepted, required security margin etc are clearly defined in the Credit Policy of the Bank and any deviations require specific approval. However, respective approving authorities would take into account the availability of security only as the secondary source of repayment.

43.2 CREDIT RISK

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

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

Management of Credit Risk

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

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

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

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

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

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

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

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

Exposure to Credit Risk

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

Credit Quality Analysis

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

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

* To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. Even though these obligations may not be recognized on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Bank.

43.2.1. MEASUREMENT OF EXPECTED CREDIT LOSSES (ECL)

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

Significant increase in Credit Risk

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

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

Incorporation of Forward-Looking Information

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

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

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

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

An overview of the approach to estimating ECLs is set out in Note 2 Summary of significant accounting policies and in Note 2.1 Significant accounting judgements, estimates and assumptions. To ensure completeness and accuracy, the Bank obtains the data used from third party sources (CBSL) and a team of economists within its Risk Department verifies the accuracy of inputs to the Bank' ECL models including determining the weights attributable to the multiple scenarios. The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2023.

The tables show the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario.

As at 31 December

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

Measurement of ECL

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

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

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure ou comes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

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

Treasury, trading and interbank relationships

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

Sector classification of loans

The loan classification of the bank for reporting purpose has been incorporated as per the sectorial classification of Central Bank of Sri Lanka.
Of the total sector classification, this report categorized them in top major sectors, in accordance to the size of the portfolios.
The highest sector under this classification as per the banks closing books, 2023 is the Housing Loan followed by Refinance, Commercial, Agriculture, Pawning, Industrial, and Other Loans, Loans against deposits, Staff loans, Leasing, SME, Liya Isura Loans.

Sector wise portfolios	LKR
Term Loan - Housing	44,232,389,013
Refinance	39,967,038,336
Term Loan - Commercial	23,425,146,043
Term Loan - Agriculture	18,307,571,946
Pawning	45,600,279,410
Term Loan - Industrial	14,691,995,055
Term Loan - Other	6,774,006,893
Loan Against Deposit	14,054,296,935
Staff	5,864,348,559
Leasing	896,814,460
SME	118,110,361
Liya Isura	30,638,070

Corporate loans (Services, Manufacturing and Industry loans)

For corporate loans, the borrowers are assessed by specialized credit employees of the Bank. The credit risk assessment is based on the behaviour of the customer and credit quality based on the past due status. Further, the bank considers following aspects while assessing the risk of a customer :

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties are captured, which includes information provided by Credit Information Bureau. This includes external rating grades issued by rating agencies, independent analyst reports, press releases and articles, which contains relevant information of clients/industry and applicable to the credit analysis and decision making processes.

- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Consumer lending and retail loans

Consumer lending comprises Housing Loans, Consumer loans and Personal Loan. These products along with retail mortgages and some of the less complex small business lending are rated by (Corporate and retail credit scoring models) primarily driven by days past due (Credit Information Bureau reports). Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, economic condition, changes in personal income/ salary levels based on records of repayment capacity, repayment sources, personal indebtedness and expected interest repricing.

- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

Grouping financial assets measured on a collective basis

Asset classes where the Bank calculates ECL on an individual basis includes all customers above the individually significant threshold of LKR 10 mn of the total exposure.

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

- Customers below the Individually Significant threshold of LKR 10mn.

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

- Product Type
- Interest Rate

43.2.2. COLLATERAL HELD AND OTHER CREDIT ENHANCEMENTS

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

Definition of Past Due

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

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

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

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

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

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

Loan-to-value ratio (LTV)

Residential Mortgage lending

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan - or the amount committed for loan commitments - to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes adjustment for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

As at 31 December	2023 LKR	2022 LKR
LTV ratio		
Less than 50%	12,800,091,156	28,440,620,295
51-70%	4,388,489,979	-
71-90%	888,656,046	-
91-100%	9,369,892,053	-
More than 100%	1,258,539,035	-
Total	28,705,668,268	28,440,620,295

43.2.3. CONCENTRATION OF CREDIT RISK

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

Concentrations of credit risk

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

As at December	Loans and Advances to Customers		Investment debt securities		Lending commitments and financial guarantees	
	2023 LKR	2022 LKR	2023 LKR	2022 LKR	2023 LKR	2022 LKR
Carrying amount	213,962,635,079	215,372,501,881	86,967,074,481	65,082,462,630	658,118,265	387,262,902
Amounts committed/ guaranteed						
Concentration by sector						
Corporate:						
Other	-	-	-	-	658,118,265	387,262,902
Government	-	-	60,478,658,961	11,487,849,406	-	-
Banks	-	-	26,488,415,520	53,594,613,224	-	-
Retail:						
Personal Guarantee	112,964,945,642	117,387,564,475	-	-	-	-
Mortgages	90,488,828,409	84,122,170,538	-	-	-	-
Unsecured lending	10,508,861,028	13,862,766,869	-	-	-	-
	213,962,635,079	215,372,501,881	86,967,074,481	65,082,462,630	658,118,265	387,262,902

43.3. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Hence the bank may be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Management of Liquidity Risk

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

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

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

43.3.1 Exposure to Liquidity Risk

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

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

43.3.2 ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial liabilities as at 31 December 2023. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

As at 31 December 2023	Carrying Value LKR	Total LKR	Less than 3 months LKR	3 to 12 Months LKR	1 to 3 Years LKR	3 to 5 Years LKR	Over 5 Years LKR
Non - Derivative Liabilities							
Due to banks	46,208,479,283	46,208,479,283	772,199,475	2,742,058,819	5,483,925,638	13,849,520,901	23,360,774,450
Due to other customers	226,079,614,772	226,079,614,772	56,226,684,689	110,047,742,530	11,643,421,155	16,465,228,165	31,696,538,235
Other liabilities	6,734,044,304	6,734,044,304	949,813,113	1,342,693,165	1,702,442,543	1,258,158,953	1,480,936,529
Total Non - Derivative Liabilities	279,022,138,360	279,022,138,360	57,948,697,277	114,132,494,513	18,829,789,337	31,572,908,019	56,538,249,214

As at 31 December 2022	Carrying Value LKR	Total LKR	Less than 3 months LKR	3 to 12 Months LKR	1 to 3 Years LKR	3 to 5 Years LKR	Over 5 Years LKR
Non - Derivative Liabilities							
Due to banks	47,470,707,056	47,470,707,056	341,729,856	3,118,125,660	4,440,243,697	14,000,065,209	25,570,542,634
Due to other customers	210,301,323,468	210,301,323,468	39,028,814,697	112,257,521,646	11,660,479,038	15,939,669,814	31,414,838,273
Debt issued and other borrowed funds	-	2,076,176,663	2,076,176,663	-	-	-	-
Other liabilities	7,497,705,603	7,497,705,603	1,713,880,930	1,710,127,400	1,457,098,980	1,135,661,764	1,480,936,529
Total Non - Derivative Liabilities	265,269,736,127	267,345,912,791	43,160,602,145	117,085,774,707	17,557,821,716	31,075,396,787	58,466,317,437

43.3.3. CONTRACTUAL MATURITIES OF COMMITMENTS AND CONTINGENCIES

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

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.

As at 31 December 2023	On Demand LKR	Less than 3 Months LKR	3 to 12 Months LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Contingent Liabilities						
Bank guarantee (without impairment)		1,416,330	338,030,015	26,652,118	-	366,098,463
Other Contingent items-Bills sent for collection	292,019,801	-	-	-	-	292,019,801
Total Contingent Liabilities	292,019,801	1,416,330	338,030,015	26,652,118	-	658,118,265

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

43.3.4 LIQUIDITY RESERVE

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

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

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

43.3.5. LIQUIDITY COVERAGE RATIO

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

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

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

As per the extraordinary regulatory measures implemented by the Central Bank of Sri Lanka in May 2020 due to the COVID-19 pandemic situation minimum requirement of Liquidity Coverage Ratio was reduced to 90% up to 31 December 2023 with enhanced supervision and frequent reporting.

Minimum Requirement (%) - effective from	
1 July 2021	May 2020 to 31 December 2023
100	90

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

43.3.6. STATUTORY LIQUID ASSETS RATIO

For the month of December 2023 38.73%
For the month of December 2022 27.83%

43.3.7. DUE TO BANKS & DUE TO OTHER CUSTOMERS (DEPOSITS) TO LOANS AND RECEIVABLES FROM BANKS & OTHER CUSTOMERS (ADVANCES) RATIO

The Bank is aware of the importance of due to banks & other customers as a source of funds for its lending operations.

This is monitored using the following ratio, which compares loans and receivables to customers as a percentage of due to banks & Due to other customers (Deposits).

Due to banks & due to other customers to Loans and receivables from banks & other customers Ratio.
As at 31st December 2023 86.58%
As at 31st December 2022 95.81%

The table below sets out the availability of financial and non-financial assets held by the Bank on the basis of being encumbered or unencumbered as of 31.12.2023 and 31.12.2022.

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

43.4. MARKET RISK

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

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

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

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

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

Management of Market Risk

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

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

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

Non - Trading Market Risk

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

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

43.4.1 INTEREST RATE RISK

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

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

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

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

Interest Rate Risk in the Banking Book (IRRBB)

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

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

During the current year as well as the preceding year banking industry faced unprecedented challenges as a result of fiscal and monetary stimulus. Due to the spread of the pandemic it was increasingly becoming evident that the domestic economic activities during the year 2023, was affected due to uncertainty and the various policies and regulations which were put into place from time to time to mitigate the adverseness of the economic conditions.

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

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

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

43.4.2. MATURITY GAPS

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

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

A summary of the Bank's total assets and liabilities as at 31 December 2023, based on the remaining period at the reporting date to the respective Cash flow/ Maturity dates together with the maturity gaps are given below.

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

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

INTEREST RATE BENCHMARK REFORMS

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

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

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

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

43.4.3. EXPOSURE TO OTHER MARKET RISKS

FOREIGN CURRENCY RISK

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another, leading to an adverse impact on the Bank's earnings or equity. Bank is exposed to foreign currency risk resulting from foreign currency assets and liabilities taken over from former Lanka Puthra Development Bank and loan from Asian Development Bank. Necessary precautions are in place in order to avoid/mitigate possible foreign currency risk in the near future.

During the year, the banking sector experienced uncertainty in market situations due to the lack of foreign currency liquidity especially the US dollars. This mostly led to the banking industry being unable to meet the expected levels in liability conversion transactions especially trade related transactions. The market also experienced a drop in asset conversion transaction such as the inward remittance and export bills. This situation led to depreciation of USD/ LKR rates which was mostly a controlled exchange rate which traded around 200 to 363 levels.

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

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

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

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

As at 31 December	2023		2022	
	USD	LKR	USD	LKR
NOP	11,004,707	3,565,304,922	4,971,461	1,819,554,647
At Shocks Level of	Revised Rupee position	Effect on income statement	Revised Rupee position	Effect on income statement
5%	3,743,570,168	178,265,246	1,910,532,380	90,977,732
10%	3,921,835,414	356,530,492	2,001,510,112	181,955,465
15%	4,100,100,660	534,795,738	2,092,487,844	272,933,197

43.5. OPERATIONAL RISK

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

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

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

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

44. CAPITAL MANAGEMENT

44.1. REGULATORY CAPITAL

The Bank's lead regulator the Central Bank of Sri Lanka sets and monitors capital requirements for the Bank as a whole. The individual banking operations are directly supervised by the lead regulators. The Bank capital management goals are as follows;

a. Ensure regulatory minimum capital adequacy of 12.5% requirements are not compromised.

b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.

c. Ensure above industry average Capital Adequacy Ratio for the banking sector is maintained.

d. Ensure maintaining of quality capital.

e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.

f. Ensure capital consumption by business actions are adequately priced.

g. Ensure Bank's average long-term dividend pay-out ratio is maintained.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on solo basis. The Bank is required to comply with the provisions of the Basel II and Basel III in respect of regulatory capital.

CAPITAL MANAGEMENT

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

44.2. CAPITAL ALLOCATION

Management uses regulatory capital ratios to monitor its capital base. The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily on regulatory capital requirements, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk and Bank Credit, and is subject to review by the Bank Asset and Liability Management Committee (ALCO).

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

44.3. AVAILABLE CAPITAL

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

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

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

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

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

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

Components of Capital	Capital Adequacy Ratio to be maintained by Licensed Banks
Common Equity Tier 1 including Capital Conservation Buffer	7.00%
Total Tier 1 including Capital Conservation Buffer	8.50%
Total Capital Ratio including Capital Conservation Buffer	12.50%

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

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

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

45.1. DETERMINING FAIR VALUES

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

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

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

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

45.2. VALUATION MODELS

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

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

45.3. VALUATION FRAMEWORK

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

- Verification of observable pricing;
- Re-performance of model valuations;
-
- A review and approval process for new models and changes to models involving both product control and group market risk;
- Quarterly calibration and back-testing of models against observed market transactions;

- Analysis and investigation of significant daily valuation movements; and

- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair valu measurement of level 3 instruments compared with the previous period.

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

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of Financial Instrument;

- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;

- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and

- If a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

45.4. FINANCIAL 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	2023			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Equity Instruments at fair value through profit or loss	145,820	-	-	145,820
Financial assets-fair value through other comprehensive income	-	-	2,290,929	2,290,929
	145,820	-	2,290,929	2,436,749

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

45.5. TRADING ASSETS AND OTHER ASSETS MEASURED AT FAIR VALUE

Financial assets measured at fair value are quoted equities and unquoted equities. For quoted equities, the Bank uses quoted market price in active markets as at the reporting date. Unquoted equities are measured at cost because the fair value cannot be measured reliably.

45.6. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

As at 31 December	2023			2022	
	Fair value hierarchy	Carrying amount LKR	Fair value LKR	Carrying amount LKR	Fair value LKR
Financial assets					
Cash and cash equivalent	Level 2	104,444,214	104,444,214	2,889,883,677	2,889,883,677
Placements with Banks	Level 2	6,005,330,402	6,005,330,402	6,133,705,351	6,133,705,351
Financial assets at amortised cost - Debt & other instruments	Level 2	86,964,714,682	86,964,714,682	65,079,635,908	65,079,635,908
Financial assets at amortised cost - Loans and receivables from other customers					
Pawning	Level 2	45,600,279,410	45,600,279,410	42,234,452,674	42,234,452,674
Staff loans	Level 2	5,864,336,559	5,864,336,559	5,501,098,905	5,501,098,905
Short-term	Level 2	17,706,900,606	17,706,900,606	13,716,623,362	13,716,623,362
Long-term	Level 2	143,894,304,044	143,894,304,044	152,522,804,644	152,522,804,644
Other assets	Level 2	4,431,547,579	4,431,547,579	6,018,325,952	6,018,325,952
		310,571,857,496	310,571,857,496	294,096,530,472	294,096,530,472
Financial liabilities					
Due to banks	Level 2	46,208,479,283	46,208,479,283	47,470,707,056	47,470,707,056
Due to other customers	Level 2	226,079,614,772	226,079,614,772	210,301,323,468	210,301,323,468
Debt issued and other borrowed funds	Level 2	-	-	-	-
Other liabilities	Level 2	5,446,759,311	5,446,759,311	6,426,430,198	6,426,430,198
		277,734,853,367	277,734,853,367	264,198,460,722	264,198,460,722

Basis of measurement for the fair value of financial assets and liabilities not carried at fair value

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than one year) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to savings accounts without a specific maturity.

Loans and Receivables to customers

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

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

Due to Customers

Around 68% of the customer deposits are either repayable on demand or have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

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

> "Seeds of prosperity; Banking for sustainable regional growth."

Supplementary Information

FIVE YEAR SUMMARY

Description	2023 LKR	2022 LKR	2021 LKR	2020 LKR	2019 LKR
Profit & Loss					
Total Income	47,586,934,542	36,202,749,629	24,492,768,957	24,354,246,869	27,507,821,054
Interest Income	46,232,790,959	35,273,433,857	23,545,299,165	23,182,459,141	26,357,071,298
Interest Expenses	(29,289,826,032)	(19,639,529,550)	(9,893,373,234)	(12,294,380,832)	(13,903,881,276)
Net Interest Income	16,942,964,926	15,633,904,307	13,651,925,931	10,888,078,309	12,453,190,022
Net Other Income	944,736,912	574,130,849	635,357,741	899,852,505	872,445,458
Total operating income	17,887,701,838	16,208,035,156	14,287,283,672	11,787,930,814	13,325,635,480
Impairment loss on financial assets	(2,162,850,997)	(2,852,677,176)	(3,256,775,862)	(2,010,929,062)	(2,408,748,853)
Net operating income	15,724,850,842	13,355,357,980	11,030,507,810	9,777,001,752	10,916,886,627
Personal expenses	(9,550,728,566)	(8,739,537,602)	(7,292,269,883)	(5,983,362,037)	(5,931,625,972)
Depreciation and amortization expenses	(592,566,813)	(532,733,987)	(520,988,009)	(616,792,758)	(617,322,679)
Other expenses	(2,073,288,768)	(2,084,970,281)	(1,290,468,186)	(1,115,987,925)	(1,407,680,268)
Operating Profit	3,508,266,695	1,998,116,109	1,926,781,733	2,060,859,032	2,960,257,709
Nations Buildings Tax	-	-	-	-	(123,625,704)
VAT on Financial Services	(2,066,232,496)	(1,561,474,848)	(1,151,277,133)	(1,047,410,630)	(1,012,948,950)
Social Security Contribution Levy	(258,613,077)	(77,525,933)	-	-	-
Debt repayment levy	-	-	-	-	(601,522,646)
Profit Before Taxation	1,183,421,122	359,115,328	775,504,600	1,013,448,401	1,222,160,409
Income tax (expense) /reversal	(319,903,305)	990,279,323	(469,201,889)	(609,412,349)	(723,565,878)
Profit After Taxation	863,517,816	1,349,394,652	306,302,711	404,036,052	498,594,531
Assets					
Cash and cash equivalent	104,444,214	2,889,883,677	1,486,878,989	3,758,858,141	2,750,187,219
Placements with banks	6,005,330,402	6,133,705,351	6,596,072,932	8,436,353,244	9,798,242,492
Equity Instruments at fair value through profit or loss	145,820	120,280	188,140	145,160	123,000
Financial assets at amortized cost-Loans and receivables from other customers	194,424,888,169	198,008,145,155	175,229,666,656	156,694,052,473	136,205,641,441
Financial investments at amortized cost-Debt & other instruments	86,964,714,682	65,079,635,908	54,856,210,318	46,962,354,137	45,664,745,400
Equity Instruments at fair value through other comprehensive income	2,290,929	2,289,919	2,289,919	2,289,919	2,289,919
Property, plant and equipment	1,161,828,361	926,615,241	928,568,438	970,538,655	1,228,419,894
Intangible assets	112,402,355	68,867,744	113,688,780	21,272,699	45,356,343
Right of use assets	860,244,061	718,096,698	505,092,023	598,978,557	855,183,154
Deferred tax assets	2,960,017,044	3,525,174,919	1,263,795,071	903,720,969	696,316,484
Current tax assets	503,589,580	-	-	-	-
Other assets	6,617,542,021	8,042,615,550	4,907,060,297	2,760,586,570	2,732,423,840
Total Assets	299,717,437,639	285,395,150,443	245,889,511,562	221,109,150,524	199,978,929,186
Total shareholders' equity	17,865,721,674	16,226,127,375	15,393,322,327	15,114,316,941	14,965,321,578
Total equity and liabilities	299,717,437,639	285,395,150,443	245,889,511,562	221,109,150,524	199,978,929,186
Liabilities					
Due to banks	46,208,479,283	47,470,707,056	29,500,936,543	21,796,679,350	22,050,009,005
Due to other customers	226,079,614,772	210,301,323,468	187,752,465,256	172,882,632,278	149,599,829,047
Debt issued and other borrowed funds	-	-	2,000,000,000	2,000,000,000	4,707,852,534
Current tax liabilities	-	1,011,924,146	503,021,886	378,203,555	448,881,448
Other liabilities	6,734,044,304	7,293,487,262	7,693,300,812	6,154,443,776	5,970,920,446
Retirement benefit obligation	2,829,577,605	3,091,581,136	3,046,464,739	2,782,874,624	2,236,115,128
Total Liabilities	281,851,715,965	269,169,023,068	230,496,189,235	205,994,833,583	185,013,607,608
Liquid Assets Ratio	38.73%	27.83%	26.18%	29.30%	32.38%
Capital Adequacy Ratio -					
AS per BASEL III					
Common Equity Tier 1 Capital Ratio	10.09%	8.29%	8.72%	10.34%	10.90%
Total Tier 1 Capital Ratio	10.09%	8.29%	8.72%	10.34%	10.90%
Total Capital Ratio	17.28%	15.22%	14.27%	14.94%	16.27%

INVESTOR INFORMATION

Significant Ratios		
Ratios	31/12/2023	31/12/2022
Net Assets Value Per Share (Rs.)	32.70	29.43
Debt to Equity (%)	2.10%	6.93%
Interest Cover (Times)	2.16	1.93

Significant Ratios				
Shareholders	Current Year		Previous Year	
	31/12/2023		31/12/2022	
	No of Ordinary Shares	Holding as %	No of Ordinary Shares	Holding as %
General Treasury	512,135,653	91.21%	501,941,973	91.05%
Bank of Ceylon	16,448,448	2.93%	16,448,448	2.98%
Peoples Bank	16,448,448	2.93%	16,448,448	2.98%
National Savings Bank	16,452,126	2.93%	16,452,126	2.98%
	561,484,675		551,290,995	

GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Provinces of Sri Lanka

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

Districts of Sri Lanka

1. Kurunegala District
2. Puttlam 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. Gampaha District
12. Kalutara District
13. Colombo District
14. Badulla District
15. Monaragala District
16. Kandy District
17. Matale District
18. Nuwara Eliya District
19. Anuradhapura District
20. Polonnaruwa District
21. Kilinochchi District
22. Jaffna District
23. Mulativu District
24. Mannar District
25. Vavuniya District

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

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

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	Angunakolapelessa
Hambantota	Ambalantota
Hambantota	Barawakumbuka
Hambantota	Beliatta
Hambantota	Hambantota
Hambantota	Katuwana
Hambantota	Lunugamvehera
Hambantota	Middeniya
Hambantota	Ranna
Hambantota	Sooriyawewa
Hambantota	Tangalle
Hambantota	Thissamaharama
Hambantota	Walasmulla
Hambantota	Warapitiya
Hambantota	Weeraketiya
Matara	Akuressa
Matara	Deiyandara
Matara	Deniyaya
Matara	Devinuwara
Matara	Dikwella
Matara	Gandara
Matara	Hakmana
Matara	Kamburugamuwa
Matara	Kamburupitiya
Matara	Kekanadura
Matara	Kirinda
Matara	Matara City
Matara	Mawarala
Matara	Mirissa
Matara	Morawaka
Matara	Pamburana
Matara	Pitabeddara
Matara	Thihagoda
Matara	Urubokka
Matara	Weligama

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

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	Mahiyanganaya
Badulla	Meegahakiwula
Badulla	Passara
Badulla	Rideemaliyadda
Badulla	Uva Maligathenna
Badulla	Uva Paranagama
Badulla	Welimada
Monaragala	Badalkumbura
Monaragala	Bibile
Monaragala	Buttala
Monaragala	Madulla
Monaragala	Medagama
Monaragala	Monaragala
Monaragala	Sevanagala
Monaragala	Siyambalanduwa
Monaragala	Thanamalvila
Monaragala	Wellawaya

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
Nuwara Eliya	Nuwara Eliya
Nuwara Eliya	Pundaluoya
Nuwara Eliya	Rikillagaskada

North Central & North 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 Town
Anuradhapura	Thirappane
Anuradhapura	Bogaswewa
Polonnaruwa	Aralaganwila
Polonnaruwa	Bakamoona
Polonnaruwa	Galamuna
Polonnaruwa	Hingurakgoda
Polonnaruwa	Kaduruwela
Polonnaruwa	Manampitiya
Polonnaruwa	Medirigiriya
Polonnaruwa	Polonnaruwa
Polonnaruwa	Pulasthigama
Polonnaruwa	Sewanapitiya
Polonnaruwa	Siripura
Kilinochchi	Chunnakam
Kilinochchi	Jaffna
Kilinochchi	Kilinochchi
Kilinochchi	Mannar
Kilinochchi	Vavuniya
Kilinochchi	Kanakarayankulam

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY	Bank is engaged in improving financial stability for low-income customers and contributes to combating poverty in line with macroeconomic objectives of the government. Offering financial literacy workshops to MSMEs to improve their understanding and uplift living standards. Bank assists under privileged communities to grow up by encouraging savings, financial literacy, and community-based financing. The specialist group such as Rural Leaders have been formed to create wildly connect with underprivileged communities and self-held groups to improve their livelihoods.
2 ZERO HUNGER	Agriculture and agri related sectors directly link for the food security. Agriculture & agri based loans accounts for 20 % of total loan disbursement in the year 2023.
3 GOOD HEALTH AND WELL-BEING	Permanent employees are entitled to well-designed health coverage and ensure good health and safety through good health practices. The community health and wellbeing standards will be uplifted in proportionate to the improvement of their livelihood standards. - by providing the accessible finance.
4 QUALITY EDUCATION	Timely scheduled staff capacity building trainings and TOT trainings are conducted to widen the exposure. by bank with the support of extranal entities. Bank supports to the under privileged schools by donating study/reading materials. as a Positive impact in literacy improvement.
5 GENDER EQUALITY	Gender Gap Assessment was conducted with a focus on enhancing women's financial inclusion and the actions were taken to address the identified gaps by conducting WE-educating workshops on business plan implementation. Internal policies and promotional conditions are open to all without any gender discrimination. Bank permanent employee profile is 52% male and 48% female.
7 AFFORDABLE AND CLEAN ENERGY	Adapting the energy conservation measures by applying an efficient lightning solution. Providing renewable energy for three bank buildings by installing the rooftop solar power systems. The total accounts for 30 kW of electricity generation.

8 DECENT WORK AND ECONOMIC GROWTH	Conducting non-bias and transparent branch performance evaluation events by appreciating and encouraging the staff members. Following a goal-oriented work environment by while forcusing on sustainable economic growth by ensuring the employees' physical and mental stability. Empower the grass-roots entrepreneurs, and bank provides the support for financial inclusion.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Food insecurity is one of the most challenging aspect. in the world As a development bank, encouragement is made much focus on innovative agribusiness. And a well designed facility was delivered for young startups with the aim of making innovations through inventions.
10 REDUCED INEQUALITIES	Bank has a well-armed branch network with 272 branches and reaches to the lagging areas as well. And provide accessible and affordable credit facilities.
11 SUSTAINABLE CITIES AND COMMUNITIES	Empowering the underserved community by providing community-based financial facilities, specially called "Isusru Janatha Samagam."
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	The selected lending portfolio is subjected to the E & S risk evalution and adhering to it gradually for the total loan portfolio. Bank is putting in the effort to go for sustainable financing concepts by ensuring responsible banking practices.
13 CLIMATE ACTION	Application of the online platforms for virtual meetings by limiting the physical gatherings. It is a good practice to reduce the GHG emission.
17 PARTNERSHIPS FOR THE GOALS	The bank has a long-term business relationship(s) with the international financial and TA facilitators, which will directly link to support for regional development and eventually national level.

NOTES

CORPORATE INFORMATION

REGISTERED NAME OF THE BANK

Pradeshiya Sanwardana Bank

LEGAL STATUS

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

CREDIT RATING

BBB+Stable

BOARD OF DIRECTORS

INDEPENDANT NON- EXECUTIVE DIRECTORS

Mr. W.A.D Sirikumara Gunasinghe - Chairman
Mr. Lalith Abeysiriwardena
Mrs. K.E. Dilrukshi
Mr. Boshan Harshana Dayaratna
Mr. Mahendra Abeywardana
Mr. Dushshantha Wijekoon

NON- INDEPENDANT NON- EXECUTIVE DIRECTORS

Ms. G. V. A. D. D Silva
Mr. S. N. B. M. W. Narayana
Mr. K.A.A. Karunarathna

GENERAL MANAGER/ CEO (Covering-up of Duties)

Mr. Sumeda Edirisuriya

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
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.

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RDB
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பிரதேச அபிவிருத்தி வங்கி
Regional Development Bank